Baillie Gifford Shin Nippon PLC (BGS)

Legal Entity Identifier: X5XCIPCJQCSUF8H1FU83
Regulated Information Classification: Half Yearly Financial Report

Results for the six months to 31 July 2022

Over the six months to 31 July 2022, the Company's net asset value per share† declined by 4.8% compared to a 0.9% increase in the MSCI Japan Small Cap Index*. The share price decreased by 9.9%.

- Positive contribution to performance came from an eclectic group of companies such as GA Technologies, an online real estate company, Shoei, a motorcycle helmet manufacturer, and Yonex, a sports equipment manufacturer.
- Many of the portfolio's internet and semiconductor related companies performed poorly in share price terms.
- Portfolio turnover for the six months was 17% annualised. Seven names were exited and five new holdings, including one private company, JEPLAN, bought.
- The Board is disappointed by the weak performance over six months and three years, but this is not unexpected after a long period of strong outperformance and especially given the extremely challenging environment for high-growth small cap stocks more recently.
- Despite the challenging environment, the Managers remain confident that the innovative, high-growth companies in the portfolio are well placed to deliver attractive returns over the long term given their adaptability and growth opportunity.

† After deducting borrowings at fair value.

* The Company's comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms). See disclaimer at the end of this announcement.

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer at end of this announcement.

Shin Nippon aims to achieve long term capital growth through investment principally in small Japanese companies which are believed to have above average prospects for growth. At 31 July 2022 the Company had total assets of £613 million (before deduction of bank loans of £87 million).

The Company is managed by Baillie Gifford, an Edinburgh based fund management group with approximately £239 billion under management and advice as at 22 September 2022.

Past performance is not a guide to future performance. The value of an investment and any income from it is not guaranteed and may go down as well as up and investors may not get back the amount invested. The Company has borrowed money to make further investments. This is commonly referred to as gearing. The risk is that, when this money is repaid by the Company, the value of these investments may not be enough to cover the borrowing and interest costs, and the Company makes a loss. If the Company's investments fall in value, gearing will increase the amount of this loss. The more highly geared the Company, the greater this effect will be.

Investment in investment trusts should be regarded as long term. You can find up to date performance information about Shin Nippon at shinnippon.co.uk.

22 September 2022

Baillie Gifford Shin Nippon PLC

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The following is the unaudited Interim Financial Report for the six months to 31 July 2022.

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

On behalf of the Board
MN Donaldson
Chairman
22 September 2022

Baillie Gifford Shin Nippon PLC

Interim Management Report

The first half of this year has been overshadowed by geopolitical and macroeconomic events. The tragic situation in Ukraine, aside from human suffering, has caused a spike in energy prices and exacerbated inflationary pressures globally. While still low from a Western perspective, inflation in Japan has edged up to just below 3% after decades of deflation. However, the Bank of Japan is keeping interest rates low which has led to a weakening of the yen. Investors tend to seek safety in higher yielding, less growth-oriented companies under these circumstances. The shocking assassination of former prime minister Shinzo Abe in early July also weighed on market sentiment. Despite the challenging environment, we remain confident that the innovative, high-growth companies we own in the portfolio are well placed to deliver attractive returns over the long term given their adaptability and growth opportunity.

In the six months to 31 July 2022, Shin Nippon's net asset value per share (after deducting borrowings at fair value) fell by 4.8% compared to a 0.9% rise in the MSCI Japan Small Cap index (total return and in sterling terms). The Company's share price ranged between a premium to net asset value of 1.5% and a discount of 8.9%, averaging a discount of 4.0%. Over three years, the Company's net asset value per share is down 8.4% compared to the index which is up 1.6%. We are disappointed by the weak performance over six months and three years, but this is not unexpected after a long period of strong outperformance and especially given the extremely challenging environment for high-growth small cap stocks more recently. Performance however remains strong over longer periods. Over five and ten years, the Company's net asset value per share is up 25.0% and 332.3% versus the index's 11.8% and 154.4% respectively.

The market rotation away from high-growth stocks to economically-sensitive businesses has resulted in a significant valuation compression for the former despite no significant change in their growth prospects. Strong near-term earnings growth for cyclical businesses in sectors like shipping and energy has inflated the overall return of the index, thereby leading to Shin Nippon's underperformance. We have little exposure to these traditional cyclical sectors as we believe such companies are facing long-term structural headwinds which will significantly impair their current business models and earnings capacity in the long run.

Given the sharp reversal in sentiment around high growth small cap stocks, many of our internet companies performed poorly in share price terms despite recording impressive rates of sales and profit growth. Online printing, logistics and advertising platform Raksul was among the poor performers despite recording over 30% growth in sales and profits so far this year. The company has suffered from Covid-19 related slowdown but is seeing demand bounce strongly. Another poor performer was training and employment assistance company LITALICO. Its offering is geared towards people with disabilities and children with developmental issues. The company was impacted by the pandemic and it has at the same time invested heavily in future growth. We believe that these investments will stand LITALICO in good stead in the long run. Management is forecasting a near 30% growth in profits for the current fiscal year, but recent quarterly results suggest profit growth running at over 70%. Longstanding holding Infomart, Japan's leading online food ordering platform for restaurants, also performed poorly. It is temporarily sacrificing profitability as management invest in the business and this was not taken well by the market. It recently published an ambitious five-year plan that envisages a doubling of sales and nearly five-fold growth in profits, driven partly by price hikes.

Cautious investor sentiment towards semiconductor related stocks resulted in weak share price performance by most of our related holdings. Among these was JEOL, a specialist semiconductor equipment manufacturer. Whilst orders for its new semiconductor production kit remain robust, the market remains concerned about the likelihood of a sharp slowdown in demand. Sportswear manufacturer Descente suffered from weak demand in China due to repeated lockdowns as authorities continue to enforce a zero Covid-19 policy. China is a key market for Descente where it has a joint venture with Anta Sports, one of China's largest and most successful sporting goods manufacturer. Longstanding holding Nihon M&A, Japan's largest M&A consultancy for small businesses, was another poor performer. Management had to deal with an improper accounting issue which distracted its focus from sales and marketing activities. The problem was largely to do with the timing of recording sales rather than anything serious. Management has addressed the issue to the satisfaction of the regulator and has strengthened internal controls to prevent the recurrence of such issues in future.

Positive contribution to performance came from an eclectic group of companies. Bucking the trend of share price weakness among internet companies in general, online real estate company GA Technologies put in a strong performance and was the largest contributor in the period. It is digitalising the staid Japanese real estate market by offering a number of software-as-a-service products. Growth in all business segments was very strong and the company has achieved profitability on an operating basis which was rewarded by the market. Demand for Shoei's premium motorcycle helmets has been exceptionally strong as its key markets, most notably North America and Europe, reopen post the pandemic. In contrast, the large Chinese market was hampered by supply chain issues. Overall and despite the weakness in China, Shoei's sales and profits are continuing to grow at a rapid pace thanks to the strength of its brand and the safety credentials of its helmets. Leading global badminton brand Yonex also performed well. It struck a partnership with the China Badminton Association in 2021 and subsequently, the Chinese team did very well in the Tokyo Olympics. This has boosted its profile in China where the company is now seeing rapid growth in sales and profits. Drugstore chain MatsukiyoCocokara was another strong performer. It is reaping the benefits of its merger in 2021 with Cocokara Fine. Synergies from the merger are flowing through to improved profitability at the group level. With its focus on beauty and cosmetics, the company should further benefit from a return of overseas tourists to Japan once travel restrictions are eased. Following a Covid-19 induced slump, Optex, a leading global manufacturer of sensors for residential and industrial security applications and factory automation, recorded a sharp recovery in orders from clients, especially those based in Europe.

Portfolio activity was higher than usual as we identified several exciting investment opportunities. Turnover for the six months to 31 July 2022 was 17% annualised and active share remains high at 94%. We sold seven stocks and bought five new holdings, including one private company. Shopping mall maintenance company Aeon Delight was sold as we lost faith in management's ability to drive growth especially in overseas markets. Findex, a software developer in the healthcare industry, was also sold as we felt that the company had reached a natural limit in terms of the growth opportunity in its core market. JP Holdings, Japan's largest private sector child day-care services provider, continues to suffer from intensifying competition and we were not convinced that management has the capabilities to navigate these challenging circumstances, hence we decided to sell our holding. Game developer Gumi was sold as well considering its lack of progress in adjacent fields like virtual reality. The company has spent its significant cash holdings with no sign of success yet. Biotech company Healios failed to show statistically significant results in a recent phase 2/3 trial of its main drug to treat ischemic stroke. Given the disappointing trial results and the lack of exciting drug candidates in its pipeline, we decided to sell our holding.

Among the new holdings was Avex, one of Japan's largest music-entertainment businesses with a track record of promoting several million record selling artists. The company has been severely impacted by the pandemic, but management has streamlined the business aggressively and shored up the balance sheet during this period. We should see a rapid improvement in sales and profits once business conditions normalise. The founder is still involved in the business as the chairman and retains a 7% stake which should provide good alignment. GMO Financial Gate, a provider of offline digital payments, was another new addition to the portfolio. While most companies are focused on online payments, GMO Financial Gate is targeting the offline market which is much larger and very conservative. It has built its own payments network in partnership with VISA and Sumitomo Mitsui. Through this, it is able to offer a fast and low-cost alternative for digital payments to retailers. We took a new holding in Nittoku, a world-leading manufacturer of coil winding systems. It is exposed to two exciting end markets: electric vehicles and 5G. Both these end markets require significantly more complex and higher volumes of coils. With its high-end solutions, we believe Nittoku is very well placed to benefit from increasing demand.

We also made an investment in JEPLAN, a private company. JEPLAN has developed a novel method to chemically recycle PET (polyethylene terephthalate) and polyester. Its process is more energy efficient, environmentally friendly and more scalable than existing mechanical recycling methods. It is currently working with a number of bottling companies like Coca Cola Japan and FMCG (fast-moving consumer-goods) companies like Kao and Nestlé Japan, turning PET bottles and packaging material into high-purity virgin PET pellets that can be recycled into newer products. It is also expanding into recycling apparels using the same technology and is working with the likes of Uniqlo and Snow Peak. The company is already generating revenues on the back of these partnerships.

Despite the recent challenges we remain cautiously optimistic. While increased market volatility is uncomfortable, it also presents us with some excellent investment opportunities as valuations can drop to very attractive levels whilst the future growth prospects remain intact. Young, high-growth companies may feel less safe to many investors currently, but we believe that they represent the future of Japan's economy. Long-term growth is for us a more logical place to be in case of elevated levels of inflation compared to a flight into value stocks. We therefore remain excited about the potential of smaller companies in Japan.

The principal risks and uncertainties facing the Company are set out following note 13 of this report.

Baillie Gifford & Co
22 September 2022

Past performance is not a guide to future performance

Valuing Private Companies

We aim to hold our private company investments at `fair value' i.e. the price that would be paid in an open-market transaction. Valuations are adjusted both during regular valuation cycles and on an ad-hoc basis in response to `trigger events'. Our valuation process ensures that private companies are valued in both a fair and timely manner.

The valuation process is overseen by a valuations group at Baillie Gifford which takes advice from an independent third party (S&P Global). The valuations group is independent from the investment team, with all voting members being from different operational areas of the firm, and the portfolio managers only receive final valuation notifications once they have been applied.

We revalue the private holdings on a three-month rolling cycle, with one-third of the holdings reassessed each month. For investment trusts, the prices are also reviewed twice per year by the respective investment trust boards and are subject to the scrutiny of external auditors in the annual audit process.

Beyond the regular cycle, the valuations group also monitors the portfolio for certain `trigger events'. These may include: changes in fundamentals; a takeover approach; an intention to carry out an initial public offering ('IPO'); company news which is identified by the valuation team or by the portfolio managers or changes to the valuation of comparable public companies. Any ad-hoc change to the fair valuation of any holding is implemented swiftly and reflected in the next published net asset value ('NAV'). There is no delay.

The valuations group also monitors relevant market indices on a weekly basis and updates valuations in a manner consistent with our external valuer's (S&P Global) most recent valuation report where appropriate. When market volatility is particularly pronounced the team undertakes these checks daily.

Twenty Largest Equity Holdings at 31 July 2022

Name	Business	Value £'000	% of total assets	Absolute performance * %
Shoei	Manufactures motor cycle helmets	17,825	2.9	23.1
Snow Peak	Designs & manufactures outdoor lifestyle goods	17,149	2.8	9.0
Sho-Bond	Infrastructure reconstruction	16,439	2.7	12.5
GA Technologies	Interactive media and services	13,957	2.3	55.4
Litalico	Provides employment support and learning support services for people with disabilities	13,849	2.3	(15.9)
Technopro Holdings	IT staffing	13,779	2.2	2.2
Torex Semiconductor	Semiconductor company	13,653	2.2	(1.9)
Katitas	Real estate services	12,899	2.1	(8.1)
Harmonic Drive	Robotic components	12,535	2.0	7.1
eGuarantee	Guarantees trade receivables	12,168	2.0	19.5
Descente	Manufactures athletic clothing	12,105	2.0	(24.1)
Nakanishi	Dental equipment	12,048	2.0	17.8
Optex	Infrared detection devices	11,607	1.9	30.2
JEOL	Manufacturer of scientific equipment	11,439	1.9	(6.8)
MatsukiyoCocokara & Co	Retail company	11,251	1.8	22.7
Megachips	Electronic components	11,117	1.8	(22.1)
Wealthnavi	Digital robo wealth-management	10,407	1.7	23.5
Tsugami	Manufacturer of automated machine tools	10,283	1.7	(10.8)
Horiba	Manufacturer of measuring instruments	10,106	1.6	2.3
Raksul	Internet based services	9,972	1.6	(43.6)
		254,588	**41.5**	

* Absolute performance is in sterling terms and has been calculated on a total return basis over the period 1 February 2022 to 31 July 2022.

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

Past performance is not a guide to future performance.

Income Statement (unaudited)

	For the six months ended 31 July 2022			For the six months ended 31 July 2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net losses on investments (note 3)	–	(32,239)	(32,239)	–	(14,428)	(14,428)
Currency gains	–	3,740	3,740	–	3,442	3,442
Income from investments	4,753	–	4,753	3,342	–	3,342
Investment management fee (note 4)	(1,546)	–	(1,546)	(2,124)	–	(2,124)
Other administrative expenses	(330)	–	(330)	(306)	–	(306)
Net return before finance costs and taxation	2,877	(28,499)	(25,622)	912	(10,986)	(10,074)
Finance costs of borrowings	(671)	–	(671)	(456)	–	(456)
Net return on ordinary activities before taxation	2,206	(28,499)	(26,293)	456	(10,986)	(10,530)
Tax on ordinary activities (note 5)	(475)	–	(475)	(334)	–	(334)
Net return on ordinary activities after taxation	1,731	(28,499)	(26,768)	122	(10,986)	(10,864)
Net return per ordinary share (note 7)	0.55p	(9.07p)	(8.52p)	0.04p	(3.55p)	(3.51p)

The accompanying notes on the following pages are an integral part of the Financial Statements.

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 2022 £'000	At 31 January 2022 (audited) £'000
Fixed asset investments		
Investments held at fair value through profit or loss (note 8)	608,892	610,857
Current assets		
Debtors	1,664	2,604
Cash and cash equivalents	3,300	33,505
	4,964	36,109
Creditors		
Amounts falling due within one year (note 9)	(1,356)	(3,212)
Net current assets	3,608	32,897
Total assets less current liabilities	612,500	643,754
Creditors		
Amounts falling due after more than one year (note 9)	(86,616)	(91,102)
Total net assets	**525,884**	**552,652**
Capital and reserves		
Share capital	6,285	6,285
Share premium account	260,270	260,270
Capital redemption reserve	21,521	21,521
Capital reserve	239,909	268,408
Revenue reserve	(2,101)	(3,832)
Shareholders' funds	**525,884**	**552,652**
Net asset value per ordinary share (after deducting borrowings at book value)	**167.3p**	**175.9p**
Ordinary shares in issue (note 11)	**314,252,485**	**314,252,485**

The accompanying notes on the following pages are an integral part of the Financial Statements.

Statement of Changes in Equity (unaudited)

For the six months ended 31 July 2022

	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 2022	6,285	260,270	21,521	268,408	(3,832)	**552,652**
Net return on ordinary activities after taxation	-	-	-	(28,499)	1,731	**(26,768)**
Shareholders' funds at 31 July 2022	**6,285**	**260,270**	**21,521**	**239,909**	**(2,101)**	**525,884**

For the six months ended 31 July 2021

	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 2021	6,026	229,149	21,521	446,084	(4,728)	**698,052**
Ordinary shares issued	239	28,578	-	-	-	**28,817**
Net return on ordinary activities after taxation	-	-	-	(10,986)	122	**(10,864)**
Shareholders' funds at 31 July 2021	**6,265**	**257,727**	**21,521**	**435,098**	**(4,606)**	**716,005**

* The Capital reserve includes investment holding gains of £36,090,000 (31 July 2021 – gains of £238,572,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2022 £'000	Six months to 31 July 2021 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	**(26,293)**	(10,530)
Net losses on investments	**32,239**	14,428
Currency gains	**(3,740)**	(3,442)
Finance costs of borrowings	**671**	456
Overseas withholding tax	**(521)**	(356)
Changes in debtors and creditors	**397**	311
Cash from operations	**2,753**	867
Interest paid	**(664)**	(451)
Net cash inflow from operating activities	**2,089**	416
Net cash outflow from investing activities	**(31,524)**	(34,553)
Ordinary shares issued	**–**	29,431
Net cash inflow from financing activities	**–**	29,431
Decrease in cash and cash equivalents	**(29,435)**	(4,706)
Exchange movements	**(770)**	(213)
Cash and cash equivalents at start of period	**33,505**	10,438
Cash and cash equivalents at end of period*	**3,300**	**5,519**

* 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 2022 comprise the statements set out on the previous pages together with the related notes below. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the principles of the AIC's Statement of Recommended Practice issued in November 2014 and updated in April 2021 with consequential amendments and have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Financial Statements for the six months to 31 July 2022 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 2022.

   Going Concern

   The Directors have considered the nature of the Company's principal risks and uncertainties, as set out at the end of this document, together with its current position, investment objective and policy, its assets and liabilities and projected income and expenditure. The Board has, in particular, considered the impact of heightened market volatility since the Covid-19 pandemic, the hostilities in Ukraine and current economic conditions and reviewed the results of specific leverage and liquidity stress testing, but does not believe the Company's going concern status is affected. The Company's assets, which are primarily investments in quoted securities which are readily realisable (Level 1), exceed its liabilities significantly and could be sold to repay borrowings if required. 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. The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011. 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 2022 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on these accounts was not qualified, did not include a reference to any matters to which the Auditor 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.
3.

	Six months to 31 July 2022 £'000	Six months to 31 July 2021 £'000
Net losses on investments		
(Losses)/gains on sales of investments	**(13,268)**	6,841
Movement in investment holding gains	**(18,971)**	(21,269)
	(32,239)	**(14,428)**

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 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remainder, calculated and payable quarterly.
5. The Company suffers overseas withholding tax on its equity income, currently at the rate of 10%.
6. No interim dividend will be declared.

7.

	Six months to 31 July 2022 £'000	Six months to 31 July 2021 £'000
Net return per ordinary share		
Revenue return	1,731	122
Capital return	(28,499)	(10,986)
Total Return	**(26,768)**	**(10,864)**

Net return per ordinary share is based on the above totals of revenue and capital and on 314,252,485 (31 July 2021 – 309,882,900) 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. In accordance with FRS 102, an analysis of the Company's financial asset investments based on the fair value hierarchy described above is shown below.

As at 31 July 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	589,580	–	–	**589,580**
Private company securities	–	–	19,312	**19,312**
Total financial asset investments	**589,580**	**–**	**19,312**	**608,892**

As at 31 January 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	594,241	–	–	**594,241**
Private company securities	–	–	16,616	**16,616**
Total financial asset investments	**594,241**	**–**	**16,616**	**610,857**

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. Private company 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' private company valuation policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines 2018 ('IPEV'). The techniques applied are predominantly market-based approaches. The market-based approaches available under IPEV are set out below:

- Multiples;
- Industry Valuation Benchmarks; and
- Available Market Prices.

Further information on the private company valuation process is provided above.

The Company's holdings in private company investments are categorised as Level 3 as unobservable data is a significant input to their fair value measurements.

9. There are no bank loans falling due within one year (31 January 2022 – nil). The amounts falling due after more than one year include bank loans of £86,616,000 (¥14.10 billion) outstanding under yen loan facilities repayable between 27 November 2023 and 18 December 2024 (31 January 2022 – £91,102,000 (¥14.10 billion)).
10. The fair value of the bank loans at 31 July 2022 was £86,504,000 (31 January 2022 – £91,174,000).
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, no shares were issued (31 July 2021 – 11,960,000 shares were issued raising net proceeds of £28,817,000).

    No shares were bought back during the period under review (31 July 2021 – 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 £36,000 (31 July 2021 – £23,000) and transaction costs on sales amounted to £25,000 (31 July 2021 – £9,000).
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.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Principal Risks and Uncertainties

The principal risks facing the Company are financial risk, investment strategy risk, climate and governance risk, discount risk, regulatory risk, custody and depositary risk, small company risk, operational risk, leverage risk, political risk and emerging risk. An explanation of these risks and how they are managed is set out on pages 8 and 9 of the Company's Annual Report and Financial Statements for the year to 31 January 2022 which is available on the Company's website: **shinnippon.co.uk**.

The principal risks and uncertainties have not changed since the date of that report.

The Interim Financial Report will be available on **shinnippon.co.uk**‡ and will be posted to shareholders on or around 6 October 2022.

‡ Neither the contents of the Managers' website nor the contents of any website accessible from hyperlinks on the Managers' website (or any other website) is incorporated into, or forms part of, this announcement.

Glossary of Terms and Alternative Performance Measures ('APM')

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The APMs noted below are commonly used measures within the investment trust industry and serve to improve comparability between investment trusts.

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 Book Value)

Borrowings are valued at adjusted net issue proceeds. The Company's yen denominated loans are valued at their sterling equivalent and adjusted for their arrangement fees. The value of the borrowings on this basis is set out in note 9 above.

Net Asset Value (Borrowings at Fair Value) (APM)

This is a widely reported measure across the investment trust industry. Borrowings are valued at an estimate of their market worth. The Company's yen denominated loans are fair valued using methodologies consistent with International Private Equity and Venture Capital Valuation ('IPEV') guidelines. The value of the borrowings on this basis is set out in note 10 above.

	31 July 2022	31 January 2022
Net Asset Value per ordinary share (borrowings at book value)	**167.3p**	175.9p
Shareholders' funds (borrowings at book value)	**£525,884,000**	£552,652,000
Add: book value of borrowings	**£86,616,000**	£91,102,000
Less: fair value of borrowings	**(£86,504,000)**	(£91,174,000)
Shareholders' funds (borrowings at fair value)	**£525,996,000**	**£552,580,000**
Shares in issue at period end	**314,252,485**	314,252,485
Net Asset Value per ordinary share (borrowings at fair value)	**167.4p**	**175.8p**

Net Liquid Assets

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

Discount/Premium (APM)

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.

	31 July 2022 NAV (book)	31 July 2022 NAV (fair)	31 January 2022 NAV (book)	31 January 2022 NAV (fair)
Closing NAV per share	167.3p	167.4p	175.9p	175.8p
Closing share price	157.2p	157.2p	174.4p	174.4p
(Discount)	**(6.0%)**	**(6.1%)**	**(0.9%)**	**(0.8%)**

Total Return (APM)

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, therefore, the one year total returns for the share price and NAV per share at book and fair value are the same as the percentage movements in the share price and NAV per share at book and fair value as detailed above.

Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

Gearing (APM)

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 borrowings at book 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.

Equity gearing is the Company's borrowings adjusted for cash, expressed as a percentage of shareholders' funds.

Leverage (APM)

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 (APM)

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.

Unlisted (Private) Company

An unlisted (private) company means a company whose shares are not available to the general public for trading and not listed on a stock exchange.

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Sustainable Finance Disclosure Regulation ('SFDR')

The EU Sustainable Finance Disclosure Regulation ('SFDR') does not have a direct impact in the UK due to Brexit, however, it applies to third-country products marketed in the EU. As Shin Nippon is marketed in the EU by the AIFM, BG & Co Limited, via the National Private Placement Regime ('NPPR') the following disclosures have been provided to comply with the high-level requirements of SFDR.

The AIFM has adopted Baillie Gifford & Co's Governance and Sustainable Principles and Guidelines as its policy on integration of sustainability risks in investment decisions.

Baillie Gifford Shin Nippon PLC

Baillie Gifford & Co believes that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of line with changing societal expectations. It defines 'sustainability' as a deliberately broad concept which encapsulates a company's purpose, values, business model, culture, and operating practices.

Baillie Gifford & Co's approach to investment is based on identifying and holding high quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this it looks beyond current financial performance, undertaking proprietary research to build up an in-depth knowledge of an individual company and a view on its long-term prospects. This includes the consideration of sustainability factors (environmental, social and/or governance matters) which it believes will positively or negatively influence the financial returns of an investment. The likely impact on the return of the portfolio from a potential or actual material decline in the value of investment due to the occurrence of an environmental, social or governance event or condition will vary and will depend on several factors including but not limited to the type, extent, complexity and duration of an event or condition, prevailing market conditions and existence of any mitigating factors.

Whilst consideration is given to sustainability matters, there are no restrictions on the investment universe of the Company, unless otherwise stated within in its Objective & Policy. Baillie Gifford & Co can invest in any companies it believes could create beneficial long-term returns for investors. However, this might result in investments being made in companies that ultimately cause a negative outcome for the environment or society.

More detail on the Investment Manager's approach to sustainability can be found in the Governance and Sustainability Principles and Guidelines document, available publicly on the Baillie Gifford website **bailliegifford.com**.

Taxonomy Regulation

The Taxonomy Regulation establishes an EU-wide framework or criteria for environmentally sustainable economic activities in respect of six environmental objectives. It builds on the disclosure requirements under SFDR by introducing additional disclosure obligations in respect of Alternative Investment Funds that invest in an economic activity that contributes to an environmental objective.

The Company does not commit to make sustainable investments as defined under SFDR. As such, the underlying investments do not take into account the EU criteria for environmentally sustainable economic activities.

-Ends-