

Baillie Gifford China Growth Trust plc

RNS Announcement

Baillie Gifford China Growth Trust plc

Legal Entity Identifier: 213800KOK5G3XY17ZX18

Regulated Information Classification: Half Yearly Financial Report

Results for the six months to 31 July 2021

Over the six month period, the Company's net asset value per share (NAV) fell by 14.2% compared to a 14.8% fall in the comparative index, on a total return basis.

- The last 6 months has been a volatile period for Chinese growth equities.
- We saw a marked sell-off in US listed Chinese stocks, including Yatsen, KE Holdings and Bilibili.
- Positive contributors to performance included CATL, China's leading battery manufacturer, and Li Ning, a leading domestic sportswear manufacturer.
- Over the period, we have made a number of investments in companies exposed to China's green transition and to its industrial upgrading, including Longi Green Energy.

Past performance is not a guide to future performance

Total return information is sourced from Refinitiv, Baillie Gifford and relevant underlying index providers. See disclaimer at end of this announcement.

Baillie Gifford China Growth Trust aims to achieve capital growth over the long term from a diversified portfolio of 63 securities. At 31 July 2021 the Company had total assets of £265m.

Baillie Gifford China Growth Trust is managed by Baillie Gifford, an Edinburgh-based fund management group with approximately £335 billion under management and advice as at 12 October 2021.

Baillie Gifford China Growth Trust plc

Baillie Gifford China Growth Trust is a listed UK company. The value of its shares and any income from them can fall as well as rise and investors may not get back the amount invested. The Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. You can find up-to-date performance information about Baillie China Growth Trust at **[bailliegiffordchinagrowthtrust.com](https://www.bailliegiffordchinagrowthtrust.com)**[‡]. Past performance is not a guide to future performance

13 October 2021

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[‡] 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.

Baillie Gifford China Growth Trust plc

The following is the unaudited Interim Financial Report for the six months to 31 July 2021 which was approved by the Board on 13 October 2021.

Interim Management Report

The last six months has been a volatile period for Chinese growth equities. There has been a raft of regulatory announcements that have weighed heavily on market sentiment resulting in valuation multiples contracting across a range of industries. Notable regulatory news includes the following:

- In the US, the Accelerating Holding Foreign Companies Accountable Act was signed by the Senate in June and may effectively reduce the window from 3 years to 2 years whereby Chinese companies who do not allow audit by Public Company Accounting Oversight Board accounting firms are forced to delist from US exchanges.
- In China, the Data Security Law came into effect in June and requires Chinese companies to implement more stringent controls on data or to seek approval before exporting the data overseas if the data pertains to an area of national security.
- The Chinese State Council has opened a period of consultation on Chinese variable interest entities (VIEs).

We believe the regulation above effectively encourages Chinese companies to list domestically, including in Hong Kong, rather than overseas. This has been a long-term aim of the Chinese government. As the Company is agnostic to the listing location of Chinese companies, we do not believe this regulation, taken at face value, is of particular concern. The Company itself has approximately 37% of NAV in VIE companies, including less than 10% of NAV in US ADRs.

More importantly, the Chinese government has again stipulated its desire to tackle the expansion of social and economic inequality, and to slow or even reverse the country's falling birth rate. Over the past two years we have seen increased regulation in the 'new mountains' of healthcare, education and property. This regulation has sought to reduce the principal costs associated with child rearing and the barriers to consumption growth. The State Council's 'Double Reduce Policy' in the education sector (where the Company has no exposure) is the most severe example of increased regulation. In response to inappropriate advertising by education companies, the government has effectively forced a wholesale restructuring of these businesses resulting in a significant cooling of sentiment towards China. This cooling of sentiment has also affected valuations of the big internet platforms. Here, the government continues to work through anti-monopoly probes at a number of these businesses whilst trying to tackle what it terms the 'disorderly expansion of capital'. The market has largely taken these regulatory moves as an attack on the private sector. We disagree and would note that the vast majority of regulation in the internet space has been remarkably sensible. Weeding out practices such as forced supply exclusivity and differential pricing is a positive for the companies we own. It encourages them to double down on what they do best i.e. building platforms that create significant value for all stakeholders.

As such, we remain happy to own companies such as Alibaba and Tencent at modest overweight positions. We continue to believe that, on balance, Alibaba's business is a strong force for good within Chinese society and therefore likely to continue growing over the next decade. Its ecommerce platform has created millions of jobs within China and continues to bring goods and services to the poorest of consumers. With ecommerce penetration below 30%, we think the growth opportunity and returns for shareholders remain sizeable, particularly given the current valuation. Tencent's social media platform, WeChat, remains the de-facto app via which almost all Chinese consumers organise their lives and via which Chinese corporates increasingly connect with their customers, suppliers and other stakeholders. Comparisons with Facebook do not do this business justice. Whilst the market obsesses over regulation which affects less than 10% of Tencent's business (namely restrictions on gaming time spent by under 18s), our attention lies elsewhere.

Outwith the internet space, the government continues to show support for sectors which will be key for China's next decade of growth, namely, advanced manufacturing, industrial upgrading and the renewables industry, all of

Baillie Gifford China Growth Trust plc

which present sizeable opportunities for long term growth investors. It is here that we are increasingly focusing our investment research.

Portfolio Positioning and Recent Activity

The current portfolio represents a selection of the best and most innovative public and private Chinese growth companies. What you will see in the portfolio is a bias towards consumer discretionary and healthcare related businesses. However, over the period, we have made a number of investments in companies exposed to China's green transition and to its industrial upgrading. Longi Green Energy, a domestically listed A share company, is a good example of the former. It is a world leading solar module manufacturer, supplying roughly a quarter of the global market for solar wafers and modules. This is an industry in which demand for solar installation is expected to triple by 2025 and then triple again by 2030, as environmental benefits increasingly motivate governments around the world and economic competitiveness is driven by ongoing cost reduction. Longi have developed from a wafer manufacturer and are now building a growing downstream presence. Their cost base has been consistently lower than competitors, driven by a commitment to R&D, adoption of technology, scale and execution. We admire the founder's ambitions for our planet's future, his vision on smart energy solutions, emphasis on technology leadership, and a commitment to clients, employees as well as shareholders. This should position the company well to benefit from the many years of growth ahead of it. Shenzhen Megmeet, another domestically listed A share company, is a good example of the latter. Megmeet makes power supply and electric automation products for both industrial and consumer electronic clients. The company finds itself in the right place at the right time. It is exposed to exciting end markets that include industrial automation, new energy vehicles and advanced intelligent manufacturing. The management team have significant experience in the industry working at both Huawei and Emerson prior to founding Megmeet. The CEO and founder, Dr Tong, has instilled a company culture that is committed to R&D, innovation, and collaboration across departments. As the company grows, it is increasingly developing products into modules and modules into solutions to provide a one-stop service for clients and thereby deepening its moat. We expect continued growth to come from rising market share and expanding product lines. Organic growth will be complemented by bolt-on acquisitions, where management have the experience needed to deliver shareholder value. Megmeet has the potential to become a significant global player in industrial automation and to deliver substantial returns to investors.

In addition, the Company has also made an investment in one of China's leading semiconductor companies, SG Micro. China's desire for self-sufficiency in semiconductors has been strengthened by recent tensions with the US. As such, this is an industry which is likely to receive substantial policy support over the next two decades. SG Micro is a fabless integrated circuit (IC) designer of analog semiconductor chips. The company focuses on signal chain and power management solutions. Analog chips are increasingly applied in new fields including IoT, industrial control and the automotive sector, all of which have seen significant growth. 5G, smart home and smart city initiatives also bring new opportunities. The global analog chip market is very fragmented. China makes up 60% of global demand but is only 20% self-sufficient. SG Micro is China's number one domestic supplier, where revenues grew more than 100% in 2019. We expect a continued rise in demand, ongoing government support and new product application opportunities to drive significant growth in the years ahead. This is supported by a professional management team with global experience and a company culture that aligns with its long-term growth potential.

In order to fund these new purchases, we have made a number of sales. As noted above, healthcare is one of the sectors in which regulation remains stringent. Here the government aims to incentivise innovation via pricing incentives for genuinely innovative drugs. The vast majority of the Company's healthcare holdings are likely to benefit from this trend. However, Jiangsu Hengrui does not appear as well placed given it still generates a substantial amount of revenue and profit from generic drugs, where pricing pressure is likely to increase. This, combined with the fact that we continue to find exciting opportunities in this space has resulted in us selling Hengrui's shares.

Other sales of note include Shanghai Airport and Foshan Haitian. Foshan Haitian is a leading soy sauce and seasoning company in China. Its growth is likely to be driven by consolidation in the soy sauce market and by diversification of its product lines.

Baillie Gifford China Growth Trust plc

However, after a strong run in the company's shares and a significant re-rating, we have sold the holding on valuation grounds. Shanghai Airport is a good quality company with exposure to tourism and growth in the middle class. We have sold the company so that we can invest in higher growth ideas elsewhere.

Net gearing remains low at around 1%. This gives us the flexibility to invest in attractive opportunities as they become available without needing to sell shares from the rest of the portfolio.

Performance

Over the six months to the end of July 2021, the Company's net asset value fell by approximately 14% on a total return basis and the share price fell by approximately 21%, reducing the share price premium to NAV. Over the same period, the benchmark fell by approximately 15%. We would hesitate to draw too much from short term numbers and would hope that shareholders judge our investment returns over periods of five years or longer, the same period over which we judge our companies' performance. In terms of the net asset value, notable positive contributors are varied. They include CATL, China's leading battery manufacturer and a key enabler of China's green transition; Li Ning, a leading domestic sportswear manufacturer; and Asymchem, a leading contract manufacturing company in the healthcare space. Relative performance was helped by the fact that we did not have any exposure to education companies that were negatively impacted by the regulator's 'Double Reduce Policy' as explained above. Save for KE Holdings, an online real estate business, the Company does not have any exposure to the property sector.

In terms of negative contributors, we saw a marked sell-off in US listed Chinese stocks. A number of our holdings were affected, including Yatsen, KE Holdings and Bilibili. Yatsen and Bilibili are exposed to two of the most exciting growth trends within China over the next decade: Generation Z and the rise of Chinese brands. As noted in previous reports, younger generations in China have radically different online behaviour and brand preferences to their older compatriots, along with strong and growing purchasing power. Yatsen is a potential leader in the cosmetics space in China with its strong domestic brand, and its innovative, data-driven approach to product development and customer interaction. If successful, this company could deliver exceptionally strong returns to shareholders. Bilibili, with its highly engaged, young user base, is both an enabler and driver of youth culture within China. The management team have prioritised building a strong and vibrant online community and are only just beginning to reap the benefits in terms of monetisation.

Meituan, an online marketplace for the local service industry in China, also featured in the top 10 negative contributors. Here, the government's focus on social inequality negatively affected sentiment. The regulator is pushing for greater protection of workers with a focus on expanding social security benefits and minimum wage requirements. We would note a couple of things. Minimum wage requirements are unlikely to have a substantial impact on Meituan's cost base given full-time delivery drivers earn substantially more than the minimum wage in most city tiers. The expansion of social security benefits to part-time drivers is likely to increase delivery costs. However, factoring this in, we believe that Meituan's business model remains more than viable and that long-term profitability will still be attractive. In addition, growth for this business continues to fire on all cylinders with revenues in the first quarter growing at approximately 130% year on year. We continue to believe that this is one of the best growth businesses in our universe and remain happy holders.

Outlook

Baillie Gifford has been investing in China for over two decades. As such, we have experienced numerous regulatory cycles, significant volatility and, at times, painful periods of adjustment. However, whilst investment in China may prove volatile over a short term time horizon, we continue to believe that a combination of a vast and growing domestic market, significant investment in research and development, and private and public equity markets that are poorly understood and very short term, give long-term growth investors like ourselves a real opportunity to generate returns for our shareholders.

The principal risks and uncertainties facing the Company are set out below.

Baillie Gifford China Growth Trust plc

For a definition of terms see Glossary of Terms and Alternative Performance Measures, see below.

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Baillie Gifford China Growth Trust plc

List of Investments as at 31 July 2021 (unaudited)

Name	Business	Value £'000	% of total assets*
Tencent	Social media and entertainment company	21,590	8.1
Alibaba	Online retailer, payment and cloud business	21,505	8.1
ByteDance ^u	Social media and entertainment company	12,733	4.8
Contemporary Amperex Technology	Electric vehicle battery maker	9,456	3.6
Ping An Insurance	Life and Health Insurance	9,107	3.4
Li Ning	Domestic sportswear manufacturer	8,619	3.3
Meituan (formerly Meituan Dianping)	Online food delivery company	7,970	3.0
Kewichow Moutai	Luxury baijiu maker	7,861	3.0
China Merchants Bank	Consumer lending and wealth management	7,523	2.8
Zai Lab	Biotechnology business	6,542	2.5
Bilibili	Social media company	5,824	2.2
WuXi AppTec	Life sciences contract research organisation	5,822	2.2
Guangzhou Kingmed Diagnostics	Diagnostics Company	5,218	2.0
China Molybdenum	Metals and mining company	5,101	1.9
JD.com	Online retailer	4,948	1.9
Asymchem Laboratories (Tianjin)	Life sciences contract research organisation	4,784	1.8
Geely Automobile	Domestic automotive manufacturer	4,607	1.7
Ping An Bank	SME and consumer lender	4,606	1.7
Sunny Optical Technology	Electronic components for smartphones and autos	4,430	1.7
BeiGene	Immunotherapy biotechnology company	4,315	1.6
NetEase	Gaming and entertainment business	4,267	1.6
ENN Energy	Gas distributor and provider	4,130	1.6
Shenzhou International	Garment manufacturer	4,068	1.5
Estun Automation	Robotics and factory automation company	4,048	1.5
SG Micro Corp	Integrated circuit designer	4,024	1.5
Shenzhen Inovance Technology	Factory automation company	3,799	1.4
Hanzhou Tigermed Consulting	Clinical trial contract research organisation	3,726	1.4
Midea [†]	White goods and robotics manufacturer	3,346	1.3
Topchoice Medical	Dental services provider	3,209	1.2
Fuyao Glass	Automotive glass manufacturer	3,184	1.2
Kingdee International Software	Software for SMEs and corporates	3,077	1.2
Weichai Power	Construction machinery and heavy duty trucks	3,065	1.2
Yonyou Network Technology	Software for SMEs and corporates	2,985	1.1
Zhejiang Sanhua Intelligent Controls	Heating and cooling component manufacturer	2,981	1.1
Shenzhen Megmeet Electrical	Industrial automation and power supply company	2,833	1.1
Longi	Solar manufacturer	2,646	1.0

Baillie Gifford China Growth Trust plc

List of Investments as at 31 July 2021 (unaudited) (Ctd)

Name	Business	Value £'000	% of total Assets*
Burning Rock Biotech	Liquid biopsy cancer testing company	2,628	1.0
Proya Cosmetics	Cosmetics and personal care company	2,499	0.9
Pop Mart	Toy and collectibles maker	2,422	0.9
Glodon †	Software provider to the construction industry	2,413	0.9
Kingsoft	Software for SMEs and corporates	2,366	0.9
HUAYA Automotive Systems	Automotive parts manufacturer	2,172	0.8
Dada Nexus	Logistics and warehousing provider	2,128	0.8
Medlive Technology	Online physician platform	2,074	0.8
Minh	Automotive parts manufacturer	1,925	0.7
Hangzhou Robam Appliances	White goods manufacturer	1,919	0.7
New Horizon Health	Colorectal cancer screening company	1,730	0.7
Luzhou Laojiao	Premium baijiu maker	1,590	0.6
BGI Genomics	Gene sequencing company	1,582	0.6
Lufax	SME and consumer lender	1,501	0.6
Sinocare	Blood glucose monitoring company	1,451	0.6
Brilliance China Automotive**	Automotive makers and BMW partner	1,435	0.5
Ping An Healthcare & Tech	Online GP service	1,417	0.5
Tencent Music Entertainment	Online music provider	1,405	0.5
Hutchison China MediTech	Biotechnology company	1,382	0.5
KE Holdings	Online real estate	1,283	0.5
Yatsen	Online cosmetics company	1,203	0.5
iQIYI	Online movie and entertainment platform	1,197	0.5
Hua Medicine (Shanghai)	Diabetes drug manufacturer	1,182	0.5
AAC Technologies	Miniature electronic component maker	1,157	0.5
Yifeng Pharmacy Chain	Drug retailer	1,108	0.4
Huya	Live streaming company	989	0.4
Berry Genomics	Gene sequencing company	892	0.3
Total Investments		262,999	99.3
Net Liquid Assets		1,927	0.7
Total Assets		264,926	100.0

* Total assets before deduction of loans.

† Includes investments in Participatory Notes.

⌞ Denotes unlisted holding (private company).

** Suspended.

Income Statement (unaudited)

	For the six months ended 31 July 2021			For the six months ended 31 July 2020			For the year ended 31 January 2021 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	-	(45,207)	(45,207)	-	3,855	3,855	-	64,697	64,697
Currency gains/(losses)	-	64	64	-	(97)	(97)	-	(139)	(139)
Income from investments and interest receivable	1,325	-	1,325	3,100	-	3,100	3,600	-	3,600
Investment management fee (note 3)	(165)	(495)	(660)	(180)	(541)	(721)	(227)	(681)	(908)
Performance fee	-	-	-	-	(64)	(64)	-	(78)	(78)
Other administrative expenses	(265)	(20)	(285)	(479)	(324)	(803)	(832)	(559)	(1,391)
Net return before finance costs and taxation	895	(45,658)	(44,763)	2,441	2,829	5,270	2,541	63,240	65,781
Finance costs of borrowings	(25)	(76)	(101)	-	-	-	-	-	-
Net return on ordinary activities before taxation	870	(45,734)	(44,864)	2,441	2,829	5,270	2,541	63,240	65,781
Tax on ordinary activities	(99)	-	(99)	(203)	-	(203)	(212)	-	(212)
Net return on ordinary activities after taxation	771	(45,734)	(44,963)	2,238	2,829	5,067	2,329	63,240	65,569
Net return per ordinary share (note 4)	1.29p	(76.54p)	(75.25p)	3.67p	4.64p	8.31p	4.48p	121.71p	126.19p
Note: Dividends paid and payable per share (note 5)	2.55p			2.55p			7.15p		

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 the above statement derive from continuing operations.

A Statement of Comprehensive Income is not required as the Company does not have any other comprehensive income and the net return on ordinary activities after taxation is both the profit and comprehensive income for the period.

Balance Sheet (unaudited)

	At 31 July 2021 £'000	At 31 January 2021 (audited) £'000
Fixed assets		
Investments held at fair value through profit or loss (note 6)	262,999	268,209
Current assets		
Debtors	427	1,347
Cash and cash equivalents	2,087	5,962
	2,514	7,309
Creditors		
Amounts falling due within one year (note 7)	(5,983)	(4,094)
Net current (liabilities)/assets	(2,469)	3,215
Net assets	259,530	271,424
Capital and reserves		
Share capital	17,087	16,486
Share premium account	31,780	13,182
Capital redemption reserve	41,085	41,085
Capital reserve	160,051	189,061
Revenue reserve	9,527	11,610
Shareholders' funds	259,530	271,424
Net asset value per ordinary share*	418.51p	492.66p
Ordinary shares in issue (note 8)	62,012,982	55,093,831

*See Glossary of Terms and Alternative Performance Measures at the end of this announcement.

Statement of Changes in Equity (unaudited)

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	16,486	13,182	41,085	189,061	11,610	271,424
Ordinary shares issued (note 8)	601	18,598	-	16,724	-	35,923
Net return on ordinary activities after taxation	-	-	-	(45,734)	771	(44,963)
Dividends paid (note 5)	-	-	-	-	(2,854)	(2,854)
Shareholders' funds at 31 July 2021	17,087	31,780	41,085	160,051	9,527	259,530

For the six months ended 31 July 2020

	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 2020	16,486	5	41,085	151,441	13,191	222,208
Purchase of own shares	-	-	-	(762)	-	(762)
Net return on ordinary activities after taxation	-	-	-	2,829	2,238	5,067
Dividends paid (note 5)	-	-	-	-	(2,801)	(2,801)
Shareholders' funds at 31 July 2020	16,486	5	41,085	153,508	12,628	223,712

* The Capital Reserve as at 31 July 2021 includes investment holding gains of £1,455,000 (31 July 2020 – gains of £37,806,000)

Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2021 £'000	Six months to 31 July 2020 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	(44,864)	5,270
Net losses/(gains) on investments	45,207	(3,855)
Currency (gains)/losses	(64)	97
Finance costs of borrowings	101	-
Overseas withholding tax	(99)	(203)
Changes in debtors and creditors	16	6
Cash from operations*	297	1,315
Interest paid	(73)	-
Net cash inflow from operating activities	224	1,315
Net cash (outflow)/inflow from investing activities	(43,920)	4,567
Cash flows from investing activities		
Acquisitions of investments	(59,422)	(43,421)
Disposals of investments	15,502	47,988
Cash flows from financing activities		
Ordinary shares issued	37,215	-
Ordinary shares bought back	-	(362)
Bank loans drawn down	5,427	-
Equity dividends paid (note 5)	(2,854)	(2,801)
Net cash inflow/(outflow) from financing activities	39,788	(3,163)
(Decrease)/increase in cash and cash equivalents	(3,908)	2,719
Exchange movements	33	(97)
Cash and cash equivalents at start of period	5,962	7,386
Cash and cash equivalents at end of period†	2,087	10,008

* Cash from operations includes dividends received in the period of £939,000 (31 July 2020 – £2,772,000) and deposit interest received of £nil (31 July 2020 – £nil).

† 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. Basis of Accounting

The condensed Financial Statements for the six months to 31 July 2021 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 AIC's Statement of Recommended Practice issued in November 2014, updated in October 2019 and 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 2021 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 2021.

Going Concern

The Directors have considered the nature of the Company's principal risks and uncertainties, as set out below, as well as the implications of the current Covid-19 pandemic. In addition, the Company's investment objective and policy, assets and liabilities, and projected income and expenditure, together with the dividend policy have been taken into consideration and it is the Directors' opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company's assets, the majority of which are 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 borrowing 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) (Tax) Regulations 2011. Accordingly, the Directors consider 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 to do so over a period of at least twelve months from the date of approval of these Financial Statements.

2. Financial Information

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 2021 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on those accounts was not qualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying the report, and did not contain a statement under sections 498(2) or (3) of the Companies Act 2006.

3. Investment Manager

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, was appointed by the Company as its Alternative Investment Fund Manager and Company Secretary on 16 September 2020. The investment management function has been delegated to Baillie Gifford & Co. Dealing activity and transaction reporting have been further sub-delegated to Baillie Gifford Overseas Limited and Baillie Gifford Asia (Hong Kong) Limited. The management agreement is terminable on not less than three months' notice or on shorter notice in certain circumstances. The annual management fee is (i) 0.75% of the first £50 million of Net Asset Value; plus (ii) 0.65% of Net Asset Value between £50 million and £250 million; plus (iii) 0.55% of Net Asset Value in excess of £250 million, calculated and payable quarterly. Baillie Gifford agreed to waive its investment management fee for the first six months following its appointment as a contribution to the costs that the Company has borne in respect of the Manager changes.

4. Net return per ordinary share

	Six months to 31 July 2021 £'000	Six months to 31 July 2020 £'000	Year to 31 January 2021 (audited) £'000
Revenue return on ordinary activities after taxation	771	2,238	2,329
Capital return on ordinary activities after taxation	(45,734)	2,829	63,240
Total net return	(44,963)	5,067	65,569
Weighted average number of ordinary shares in issue	59,745,488	61,013,080	51,961,993

Net return per ordinary share is based on the above totals of revenue and capital and the weighted average number of ordinary shares in issue during each period.

There are no dilutive or potentially dilutive shares in issue.

Notes to the condensed financial statements (unaudited) (ctd)

5. Dividends	Six months to 31 July 2021	Six months to 31 July 2020
	£'000	£'000
Amounts recognised as distributions in the period:		
Previous year's final of 4.60p (2020 – 4.60p), paid on 23 July 2021	2,854	2,807
	2,854	2,807
Dividends proposed and payable in respect of the period:		
Interim of 2.55p (2020 – 2.55p)	1,581	1,109
	1,581	1,109

The interim dividend was declared after the period end date and therefore has not been included as a liability in the Balance Sheet. It is payable on 12 November 2021 to shareholders on the register at the close of business on 22 October 2021. The ex-dividend date is 21 October 2021.

6. Fair Value Hierarchy

The Company's investments are financial assets held at fair value through profit or loss. 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 (that is the least reliable or least independently observable) level input that is significant to the fair value measurement. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

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).

An analysis of the Company's financial assets based on the fair value hierarchy described above is shown below.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
As at 31 July 2021				
Listed equities	248,831	1,435	-	250,266
Unlisted ordinary shares	-	-	12,733	12,733
Total financial asset investments	248,831	1,435	12,733	262,999
As at 31 January 2021 (audited)				
Listed equities	260,199	-	-	260,199
Unlisted ordinary shares	-	-	8,010	8,010
Total financial asset investments	260,199	-	8,010	268,209

Notes to the condensed financial statements (unaudited) (ctd)

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with FRS 102 the tables above provide an analysis of these investments based on the fair value hierarchy described below which reflects the reliability and significance of the information used to measure their fair value. During the six months, a listed equity investment with a fair value at 31 January 2021 of £2,246,000 was transferred from Level 1 to Level 2 when its shares were suspended and a write-down from the last traded price was applied, to reflect the reputational impact of the suspension on the underlying business.

7. Bank loans

During the period the Company entered into a one year US\$40 million revolving credit facility with Royal Bank of Scotland International which expires on 15 April 2022. At 31 July 2021 creditors falling due within one year include borrowings of £5.4 million (US\$7.5 million) (31 January 2021 – £nil) drawn down under the facility.

8. Share Capital

The Company has authority to allot shares under section 551 of the Companies Act 2006 or sell shares held in treasury. Such authorities will only be used to issue shares or sell shares from treasury at, or at a premium to, net asset value and only when the Directors believe that it would be in the best interests of the Company to do so. In the six months to 31 July 2021 the Company issued a total of 2,404,151 shares on a non pre-emptive basis (nominal value £601,000, representing 4.4% of the issued share capital at 31 January 2021) at a premium to net asset value raising net proceeds of £11,382,000. Also in the six months to 31 July the Company issued 4,515,000 shares from treasury on a non pre-emptive basis (nominal value £1,129,000, representing 8.2% of the issued share capital at 31 January 2021) at a premium to net asset value raising net proceeds of £24,794,000. (In the six months to 31 July 2020 no ordinary shares were issued.

The Company also has authority to buy back shares. In the six months to 31 July 2021 no ordinary shares were bought back (In the six months to 31 July 2020 no ordinary shares were bought back for cancellation and 237,535 shares were bought back into treasury) therefore the Company's authority remains unchanged at 8,889,644 ordinary shares.

9. Transaction Costs

During the period the Company incurred transaction costs on purchases of investments of £60,000 (31 July 2020 – £55,000; 31 January 2021 – £286,000) and transaction costs on sales of £23,000 (31 July 2020 – £94,000; 31 January 2021 – £364,000).

10. 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 inappropriate business strategy, adverse market conditions, poor investment performance, a reduction in income received, operational failure, tax and regulatory change or breach, single country risk, emerging market risk, unlisted securities and gearing. An explanation of these risks and how they are managed is set out on pages 15 and 16 of the Company's Annual Report and Financial Statements for the year to 31 January 2021 which is available on the Company's website: bailliegiffordchinagrowthtrust.com. The principal risks and uncertainties have not changed since the date of the Annual Report. However, there have been a number of regulatory developments since the publication of the Annual Report, as referred to in the Interim Management Report above. Further information on the risks associated with VIEs (see Glossary of Terms and Alternative Performance Measures at the end of this announcement) are included in the Risk Warnings on page 21 of the Interim 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 Guidance 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 Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board
Susan Platts-Martin
Chair
13 October 2021

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.

Total Assets

The total value of all assets held less all liabilities, other than liabilities in the form of borrowings.

Shareholders' Funds and Net Asset Value

Shareholders' Funds is the value of all assets held less all liabilities, with borrowings deducted at book cost. Net Asset Value ('NAV') is the value of all assets held less all liabilities, with borrowings deducted at either book value or fair value. Per share amounts are calculated by dividing the relevant figure by the number of ordinary shares in issue.

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 net asset value. When the share price is lower than the net asset value 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 net asset value per share and is usually expressed as a percentage of the net asset value per share.

If the share price is higher than the net asset value per share, this situation is called a premium.

	31 July 2021	31 January 2021
Closing NAV per share	418.51p	492.66p
Closing share price	430.00p	548.00p
Premium	2.7%	11.2%

Total Return (APM)

The total return is the return to shareholders after reinvesting the dividend on the date that the share price goes ex-dividend.

		31 July 2021 NAV	31 July 2021 Share price	31 January 2021 NAV	31 January 2021 Share price
Closing NAV per share/share price	(a)	418.66p	430.00p	492.66p	548.00p
Dividend adjustment factor*	(b)	1.0098331	1.0095041	1.018946	1.020054
Adjusted closing NAV per share/share price	(c = a x b)	422.77p	434.09p	501.99p	558.99p
Opening NAV per share/share price	(d)	492.66p	548.00p	363.49p	333.00p
Total return	(c÷d)-1	(14.2%)	(20.8%)	38.1%	67.9%

* The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum income NAV at the ex-dividend date.

Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value. The ongoing charges are 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.

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

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds. Invested gearing is the Company's borrowings at book value less cash and cash equivalents (as adjusted for investment and share buy-back/ issuance transactions awaiting settlement) expressed as a percentage of shareholders' funds.

Leverage (APM)

For the purposes of the Alternative Investment Fund Managers 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 company means a company whose shares are not available to the general public for trading and not listed on a stock exchange.

Participatory Notes (or P-Notes)

A P-Note is a certificate-based instrument that can be issued by a counterparty bank and provides a synthetic stock exposure to an underlying equity instrument. The synthetic exposure results in the P-Note having the same performance as the underlying stock but carries an additional currency exposure due to the P-Note being denominated in US\$. P-Notes are unleveraged instruments.

Variable Interest Entity ('VIE')

VIE structures are used by some Chinese companies to facilitate access to foreign investors in sectors of the Chinese domestic economy which prohibit foreign ownership. The purpose of the VIE structure is to give the economic benefits and operational control of ownership without direct equity ownership itself. The structures are bound together by contracts and foreign investors are not directly invested in the underlying company.

Investment Policy

The Company invests predominantly in shares of, or depositary receipts representing the shares of, Chinese companies. Chinese companies are companies that have their headquarters in China or that the Investment Manager deems to have a significant part of their operations in China. They may be listed, quoted, or traded on any market, or unlisted. The Company will be actively managed and may invest in companies of any size and in any sector. In furtherance of the Investment Policy the portfolio will normally consist principally of quoted equity securities although unlisted companies, fixed interest holdings or other non equity investments may be held.

The portfolio will comprise between 40 and 80 listed and unlisted securities. No individual investment will represent a greater weight in the portfolio than, (i)20%, or (ii) its weight in the MSCI China All Shares Index (in sterling terms) plus 7.5%, whichever is lower as measured at the time of investment. The maximum amount which may be invested in unlisted securities shall not exceed 20% of the gross asset value of the Company, measured at the time of investment.

The Company will at all times be invested in several sectors. While there are no specific limits placed on exposure to any one sector, the Company will at all times invest and manage the portfolio in a manner consistent with spreading investment risk. The Company intends to employ gearing in the normal course of events. The Company may in aggregate borrow amounts equaling up to 25% of gross asset value, although the Board expects that borrowings will typically not exceed 20% of gross asset value, in both cases calculated at the time of drawdown.

With prior approval of the Board, the Company may use derivatives for the purposes of efficient portfolio management in order to reduce, transfer or eliminate investment risk in the Company's portfolio. Derivative instruments in which the Company may invest may include foreign exchange forwards, exchange-listed and over-the-counter options, futures, options on futures, swaps and similar instruments. The Company does not intend to enter into derivative or hedging transactions to mitigate against general currency or interest rate risk.

While it is intended that the Company will be fully invested in normal market conditions, the Company may hold cash on deposit or invest on a temporary basis in a range of cash equivalent instruments. There is no restriction on the amount of cash or cash equivalent instruments that the Company may hold.

The Company may invest no more than 10%, in aggregate, of gross asset value at the time of acquisition in other listed closed-ended investment funds, but this restriction will not apply to investments in such funds which themselves have stated investment policies to invest no more than 15% of their gross asset value in other closed ended investment funds. In this case, the limit is 15%.

No material change will be made to the Company's Investment Policy without the prior approval by ordinary resolution of the shareholders.

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