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The Fleming

Geared Growth

Investment Trust plc

Directors' Report & Accounts
Year ended 31st May 1998



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COMPANIES HOUSE 19/08/98

Directors' Report

Business of the Company

The business of the Company is that of an investment trust.

The Company is an investment company as defined by the Companies Act 1985 and has been recognised as an approved investment trust by the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 for all relevant periods up to 31st May 1997. In the opinion of the Directors, the Company's affairs have been conducted since that date in such manner as to enable the above recognition to be continued.

The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's statement on pages 2 and 3 and in the Investment Manager's report on pages 5 and 6.

Personal Equity Plans

The Company qualifies for the annual investment limit of £6,000 in a PEP as it has over 50% of its assets in qualifying securities. It is the Directors' intention that the Company should maintain its qualification.

Accounts

The accounts of the Company for the year ended 31st May 1998 are shown on pages 22 to 31.

Revenue and Dividends

Gross revenue for the year totalled £3,511,337 and distributable revenue after deducting administrative expenses, interest and taxation amounted to £2,621,731. The dividends on the preference shares absorbed £2,234,593 leaving £387,138 available for distribution to the ordinary shareholders. An interim dividend of 0.95 pence per ordinary share was paid on 27th February 1998. The Directors recommend a dividend of 1.90p per share be paid on 30th September 1998 to holders on the register at the close of business on 7th September 1998. These distributions will absorb £527,887 resulting in a transfer from the revenue reserve of £140,749. The revenue reserve after this transfer will amount to £2,750,353.

Investments

The Company's investments were valued at £104,535,505 at 31st May 1998 and are listed on pages 11 to 13.

Going Concern

After making enquiries, the Directors consider that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in the preparation of the accounts.

Payment Policy

It is the Company's payment policy to obtain the best terms for all business and therefore there is no consistent policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. As at 31st May 1998, the Company had no outstanding trade creditors.

Directors

The Directors of the Company at the end of the year, together with their beneficial interests in the shares of the Company, are shown below:

| | 31st May 1998 | 31st May 1997 |
|-----------------------------|---------------|---------------|
| Mr LE Linaker | 2,760 | |
| Mr BG Hill | 6,667 | 2,760 |
| Mr JG Tregoning | 23,794 | 6,667 |
| Mr JP de Blocq van Kuffeler | — | 23,794 |
| | | — |

¹ at date of appointment.

No change in the above holdings has been recorded to the date of this report.

At 31st May 1998 Mr Tregoning was treasurer of two charities which owned an aggregate of 300,000 ordinary shares in the Company.

As explained in last year's annual report and accounts Mr CR Tracey retired as a Director on 16th October 1997. Sir Hugh Bidwell GBE retired as a Director on 31st December 1997.

The Director retiring by rotation is Mr JG Tregoning, who being eligible, offers himself for re-election. Mr JP de Blocq van Kuffeler was appointed a Director on 1st December 1997. In accordance with the Articles of Association, Mr van Kuffeler offers himself for re-election.

Management

The manager and secretary, Fleming Investment Trust Management Limited, is a subsidiary of Robert Fleming Holdings Limited which, through other subsidiaries, also provides banking, investment management dealing and custodian services to the Company.

At the year end Mr Tregoning was a director of Robert Fleming International Limited, a subsidiary of Robert Fleming Holdings Limited in which he is a shareholder.

Management Fee and Expenses

The manager and secretary is employed under a contract which is subject to one year notice of termination. The fee is calculated and paid quarterly in arrears and is charged at a rate of 0.5% per annum of the Company's total assets less current liabilities. In addition the Company pays the fees of the registrar and the Directors and its other administrative and operating expenses. Half of all fees and expenses are charged to the capital reserve.

Notifiable Share Interests

As at the date of this report the Company had been notified of the following interests in its ordinary shares:

| Shareholder | Number of shares held | % |
|--|-----------------------|-------|
| Equitable Life Assurance Society | 2,769,925 | 14.95 |
| London and Manchester (Portfolio Management) | 1,900,000 | 10.26 |
| Robert Fleming Holdings Limited ¹ | 1,894,913 | 10.23 |
| <i>Included within this is:</i> | | |
| Save & Prosper Group Limited | 1,604,339 | 8.66 |
| Postal Investment Management Limited | 660,000 | 3.56 |
| Standard Life Assurance Company | 650,000 | 3.51 |
| Warrants & Value Investment Trust PLC | 650,000 | 3.51 |
| Henderson Crosthwaite Limited | 568,044 | 3.07 |

¹non-beneficial and held on behalf of various clients.

Year 2000

Some computer systems express dates using only the last two digits of the year and require modification or replacement before the Year 2000 in order to avoid malfunctions.

Most of the computer systems used for the Company's business are provided by the Flemings Group. The Board of the Company has received assurance from Flemings that their Year 2000 project is being given the highest priority and that their computer systems are being modified, enhanced or changed as necessary and tested so as to be Year 2000 compliant.

In instances where the Company depends on third party suppliers, the Board has received assurance that Flemings are seeking to ensure that all such suppliers are Year 2000 compliant.

The Board has been assured by Flemings that sufficient resources are being devoted to this issue.

While the Board believes that Flemings will achieve an acceptable state of readiness, it is not possible, given the complexity of the problem, for any organisation to guarantee Year 2000 compliance.

Capital reorganisation and change of name

In November 1997, the shareholders of The Fleming Geared Income & Assets Investment Trust plc approved various changes to the Company including a capital reorganisation and a change of name.

As a result of the reorganisation, the 6.3-13.3% cumulative limited participating preferred shares no longer participate in the capital growth of the Company and the rate of dividend on these shares was reduced to 13.0% per annum and are now known as preference shares. To enable the preferred shareholders to continue to participate in the capital growth of the Company they received a bonus issue of 9 ordinary shares for every 100 preferred shares held. Details of the number of shares issued are shown in note 12 to the accounts on page 29.

Directors' Report *continued*

The winding-up date of the Company was fixed at 30th November 2010 and the name of the Company was changed to The Fleming Geared Growth Investment Trust plc. There were no changes to the entitlements of holders of ordinary shares.

Corporate Governance

To ensure the appropriate level of corporate governance the Board have put in place arrangements which it believes are suitable for an investment trust and enable the Company to comply with the Cadbury Committee's Code of Best Practice ('the Code').

The Board consists solely of non-executive Directors, the majority of whom are independent of the Company's manager.

A management agreement between the Company and Fleming Investment Trust Management Limited sets out the matters over which the manager has authority. All other matters are reserved for the approval of the Board. The Audit Committee reviews the terms of the management agreement annually.

To ensure its independence from the manager, the Audit Committee excludes from membership all Directors who are employed by Robert Fleming Holdings Limited or any of its subsidiaries.

The members of the Audit Committee are shown on page 14.

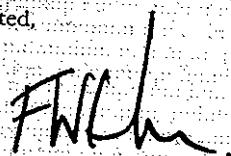
The Directors' statement on the Company's System of Internal Financial Control can be found on pages 18 and 19 and the Report by the Auditors to the Directors on Corporate Governance matters is set out on page 21.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office and a resolution to reappoint them and authorise the Directors to agree their remuneration for the ensuing year will be proposed at the Annual General Meeting.

By order of the Board
Fleming Investment Trust
Management Limited,
Secretary
FW Easton

11th August 1998



System of Internal Financial Control

The Directors are responsible for the Company's system of internal financial control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can be designed only to provide reasonable but not absolute assurance against material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by companies in the Flemings Group ('Flemings'), the Company's system of internal financial control mainly comprises monitoring the services provided by Fleming Investment Trust Management, ('the Manager'), and its associates, including the operating controls established by them to ensure they meet the Company's business objectives.

The key elements designed to provide effective internal financial control are as follows:

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, transaction analyses and performance comparisons.

Management Agreement – Appointment of the Manager, regulated by IMRO, and custodians regulated by the SFA whose responsibilities are clearly defined in a written agreement.

Management Systems – Inclusion in the Manager's system of internal financial control of organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by Flemings' Internal Audit Department. Flemings' Compliance Department regularly monitors compliance with IMRO rules.

Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board keep under review the effectiveness of the Company's system of internal financial control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- the Board, through the Audit Committee, review the terms of the management agreement and receives regular reports from both Flemings' Internal Audit and Compliance Departments;
- the Directors review the self-certification provided by the manager on its compliance with documented controls; and
- the Directors review the report on the internal controls and the operations of its custodian, Robert Fleming & Co. Limited, which is independently audited.

The Company's Auditors have reported to the Board on corporate governance matters and their report is set out on page 21.

Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the revenue for the year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors confirm that they have complied with the above requirements.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. Also, they are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report

Report of the Auditors

to the members of The Fleming Geared Growth Investment Trust plc

We have audited the accounts on pages 22 to 31, which have been prepared under the historical cost convention as modified by the revaluation of investments and on the basis of the accounting policies set out on page 25.

Respective Responsibilities of Directors and Auditors

As described on page 19, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

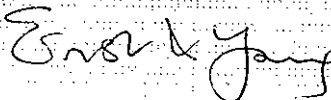
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31st May 1998 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG
Registered Auditor



London, 11th August 1998

Report by the Auditors on Corporate Governance

to The Fleming Geared Growth Investment Trust plc

In addition to our audit of the accounts, we have reviewed the Directors' statements on pages 16, 18 and 19 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on pages 18 and 19 and going concern on page 16, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 18 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

ERNST & YOUNG
Registered Auditor

London, 11th August 1998

Statement of Total Return

for the year ended 31st May 1998

| | Notes | Revenue £ | 1998 Capital £ | Total £ | Revenue £ | 1997 Capital £ | Total £ |
|---|----------|------------------|----------------------|-------------------|------------------|----------------------|-------------------|
| Realised gains/(losses) on investments | 8 | — | 1,766,516 | 1,766,516 | — | (1,005,076) | (1,005,076) |
| Net change in unrealised gains | 8 | — | 22,018,397 | 22,018,397 | — | 10,386,249 | 10,386,249 |
| Expenses re capital restructuring | 13 | — | (195,158) | (195,158) | — | (98,467) | (98,467) |
| Income from investments | 1 | 3,310,792 | — | 3,310,792 | 3,255,546 | — | 3,255,546 |
| Other income | 1 | 200,545 | — | 200,545 | 168,439 | — | 168,439 |
| Net return before expenses and taxation | | 3,511,337 | 23,589,755 | 27,101,092 | 3,423,985 | 9,282,706 | 12,706,691 |
| Management fee | 2 | (258,861) | (258,861) | (517,722) | (219,592) | (219,592) | (439,184) |
| Other administrative expenses | 3 | (69,832) | (69,832) | (139,664) | (58,975) | (58,976) | (117,951) |
| Interest payable | 4 | (1,326) | — | (1,326) | (350) | — | (350) |
| Net return before taxation | | 3,181,318 | 23,261,062 | 26,442,380 | 3,145,068 | 9,004,138 | 12,149,206 |
| Taxation | 5 | (559,587) | 61,282 | (498,305) | (589,443) | 59,080 | (530,363) |
| Return after taxation | | 2,621,731 | 23,322,344 | 25,944,075 | 2,555,625 | 9,063,218 | 11,618,843 |
| Dividends on preference shares | 6 | (2,234,593) | — | (2,234,593) | (2,260,082) | — | (2,260,082) |
| Transfer/(appropriations) in respect of non equity shares | 13 | — | 4,479,558 | 4,479,558 | — | (906,322) | (906,322) |
| Return attributable to ordinary shareholders | | 387,138 | 27,801,902 | 28,189,040 | 295,543 | 8,156,896 | 8,452,439 |
| Dividends on ordinary shares | 6 | | | | | | |
| Dividends paid | | (175,962) | — | (175,962) | (152,938) | — | (152,938) |
| Dividends payable | | (351,925) | — | (351,925) | (305,876) | — | (305,876) |
| | | (527,887) | — | (527,887) | (458,814) | — | (458,814) |
| Transfer (from)/to reserves | | (140,749) | 27,801,902 | 27,661,153 | (163,271) | 8,156,896 | 7,993,625 |
| Return per ordinary share | 7 | 2.17p | 156.05p | 158.22p | 1.74p | 48.00p | 49.74p |

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

The notes on pages 25 to 31 form part of these accounts.

Balance Sheet

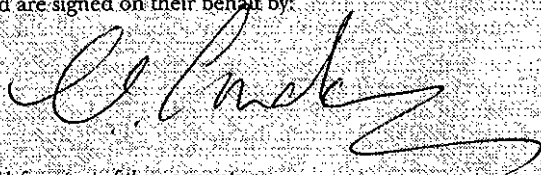
at 31st May 1998

| | Notes | 1998 £ | 1997 £ |
|---|-------|-------------|------------|
| ASSETS EMPLOYED | | | |
| Fixed assets | | | |
| Investments at valuation | 8 | 104,535,505 | 80,481,496 |
| Current assets | | | |
| Debtors | 9 | 2,178,774 | 677,587 |
| Cash and short-term deposits | | 1,591,135 | 946,819 |
| | | 3,769,909 | 1,624,406 |
| Creditors | | | |
| Amounts falling due within one year | 10 | 3,450,938 | 345,911 |
| Net current assets | | 318,971 | 1,278,495 |
| Total assets less current liabilities | | 104,854,476 | 81,759,991 |
| Provision for liabilities and charges | | | |
| Deferred taxation | 11 | — | 87,110 |
| | | 104,854,476 | 81,672,881 |
| FINANCED BY | | | |
| Capital and reserves | | | |
| Share capital | 12 | 26,254,277 | 25,489,649 |
| Share premium account | 13 | 7,224,415 | 7,224,415 |
| Capital reserve – realised | 13 | 35,909,862 | 26,733,400 |
| Capital reserve – unrealised | 13 | 32,715,569 | 14,854,757 |
| Redemption reserve | 13 | — | 4,479,558 |
| Revenue reserve | 13 | 2,750,353 | 2,891,102 |
| Total capital and reserves | | 104,854,476 | 81,672,881 |
| Attributable to | | | |
| 13.0% cumulative preference shareholders' funds | | 16,993,099 | 16,993,099 |
| Ordinary shareholders' funds | | 87,861,377 | 64,679,782 |
| | | 104,854,476 | 81,672,881 |
| Net asset value per share | | | |
| Ordinary shares | 14 | 474.4p | 349.2p |
| Preference shares | | 100.0p | 100.0p |

Adjusted to take account of the capital restructuring and to enable comparisons to be made.

The accounts on pages 22 to 31 were approved by the Directors on 11th August 1998 and are signed on their behalf by:

LE Linaker
Chairman



The notes on pages 25 to 31 form part of these accounts.

Cash Flow Statement

for the year ended 31st May 1998

| | Note 16 | 1998 £ | 1997 £ |
|--|---------|--------------------|--------------------|
| Operating activities | | | |
| Cash received from investments | | 2,785,422 | 2,761,464 |
| Deposit interest received | | 190,889 | 177,470 |
| Underwriting commission received | | 6,021 | 2,252 |
| Manager's remuneration paid | | (440,614) | (373,774) |
| Directors' fees paid | | (38,216) | (22,869) |
| Other cash payments | | (180,306) | (148,427) |
| Net cash inflow from operating activities | | 2,323,196 | 2,396,116 |
| Returns on investments and servicing of finance | | | |
| Interest paid | | (1,326) | (350) |
| Preference dividends paid | | (1,130,041) | (2,260,082) |
| Net cash outflow from returns on investments and servicing of finance | | (1,131,367) | (2,260,432) |
| Taxation | | | |
| Tax recovered | | 77,809 | 64,138 |
| Total tax recovered | | 77,809 | 64,138 |
| Capital expenditure and financial investment | | | |
| Purchases of investments | | (37,504,012) | (42,326,730) |
| Sales of investments | | 37,555,686 | 38,999,224 |
| Net cash inflow/(outflow) from capital expenditure and financial investment | | 51,674 | (3,327,506) |
| Equity dividends paid | | | |
| Dividends paid on ordinary shares | | (481,838) | (781,683) |
| Total equity dividends paid | | (481,838) | (781,683) |
| Net cash inflow/(outflow) before financing | | 839,474 | (3,909,367) |
| Financing | | | |
| Expenses paid in connection with capital reconstruction | | (195,158) | (98,467) |
| Net cash (outflow) from financing | | (195,158) | (98,467) |
| Increase/(decrease) in cash for the year | | 644,316 | (4,007,834) |

The notes on pages 25 to 31 form part of these accounts.

Notes to the Accounts

at 31st May 1998

A SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES, ALL OF WHICH HAVE BEEN APPLIED CONSISTENTLY THROUGHOUT THE YEAR, IS SET OUT BELOW:

i. Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards and the Statement of Recommended Practice 'Financial statements of investment trust companies' (SORP).

ii. Valuation of investments

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised; and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised.

iii. Income

Income from investments is included in the revenue account on an ex-dividend basis.

Where the Company has elected to receive its dividend in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserve – realised.

Unfranked income is included in the revenue account gross before deduction of income tax. In the case of franked income, related tax credits are included in the figures presented and also form part of the tax charge.

iv. Expenses

All expenses are accounted for on an accruals basis. Expenses are charged half through the revenue account and half to capital reserve – realised except as follows:

- expenses which are incidental to the acquisition of an investment are included in the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the proceeds of the investment.

v. Taxation

Provision is made for deferred taxation using the liability method on all material timing differences to the extent that it is probable that a liability will crystallise.

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting period.

vi. Capital reserve

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end;
- unrealised exchange differences of a capital nature.

Notes to the Accounts *continued*

| | 1998 £ | 1997 £ |
|--------------------------------------|------------------|------------------|
| 1. Income | | |
| Income from investments | | |
| Franked investment income | 2,781,013 | 2,921,381 |
| UK interest | 589 | — |
| Foreign income dividends | 529,190 | 291,504 |
| Scrip dividends | — | 8,161 |
| Other investment income | — | 34,500 |
| | 3,310,792 | 3,255,546 |
| Other income | | |
| Deposit interest | 194,524 | 166,187 |
| Underwriting commission | 6,021 | 2,252 |
| | 200,545 | 168,439 |
| Total income | 3,511,337 | 3,423,985 |
| Total income comprises: | | |
| Dividends from investments | 3,310,203 | 3,255,546 |
| Interest from investments | 589 | — |
| Other income | 200,545 | 168,439 |
| Total income | 3,511,337 | 3,423,985 |
| Analysis of income from investments: | | |
| Listed UK | 3,310,792 | 3,255,546 |

| | 1998 | | | 1997 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | Revenue £ | Capital £ | Total £ | Revenue £ | Capital £ | Total £ |
| 2. Management fee | | | | | | |
| Management fee | 220,307 | 220,307 | 440,614 | 186,887 | 186,887 | 373,774 |
| Irrecoverable VAT thereon | 38,554 | 38,554 | 77,108 | 32,705 | 32,705 | 65,410 |
| | 258,861 | 258,861 | 517,722 | 219,592 | 219,592 | 439,184 |
| 3. Other administrative expenses | | | | | | |
| Other management expenses | 41,531 | 41,531 | 83,062 | 35,544 | 35,544 | 71,088 |
| Directors' fees ¹ | 18,483 | 18,483 | 36,966 | 14,851 | 14,851 | 29,702 |
| Auditors' remuneration | 4,250 | 4,250 | 8,500 | 4,250 | 4,250 | 8,500 |
| Irrecoverable VAT | 5,568 | 5,568 | 11,136 | 4,330 | 4,331 | 8,661 |
| | 69,832 | 69,832 | 139,664 | 58,975 | 58,976 | 117,951 |

¹The Chairman is paid at the rate of £11,000 per annum and other Directors at the rate of £7,500 per annum each (1997: same). The total Directors' fees of £36,966 (1997: 29,702) comprise £26,651 (1997: £18,428) in respect of aggregate emoluments paid to Directors and £10,315 (1997: £11,274) paid to a third party for making available the services of one of the Directors (1997: two Directors).

²In addition the Auditors were paid £1,850 (1997: £500) in respect of services not directly connected with the audit. This amount has been included in other management expenses.

| | Revenue £ | 1998 Capital £ | Total £ | Revenue £ | 1997 Capital £ | Total £ |
|--------------------------------------|--------------|----------------------|------------|--------------|----------------------|------------|
| 4. Interest payable | | | | | | |
| Interest on bank loans and overdraft | 1,326 | — | 1,326 | 350 | — | 350 |
| | 1,326 | — | 1,326 | 350 | — | 350 |

5. Taxation

| | | | | | | |
|--|----------|----------|----------|----------|----------|----------|
| Tax on franked investment income | 558,929 | — | 558,929 | 658,969 | — | 658,969 |
| Recovery of tax credits on franked investment income | (60,624) | — | (60,624) | (77,809) | — | (77,809) |
| Deferred taxation | — | — | — | (55,461) | — | (55,461) |
| Tax relief on expenses charged to capital reserve | 61,282 | (61,282) | — | 59,080 | (59,080) | — |
| Prior year adjustment | — | — | — | 4,664 | — | 4,664 |
| | 559,587 | (61,282) | 498,305 | 589,443 | (59,080) | 530,363 |

| | | 1998 £ | 1997 £ |
|--|--------|-----------|-----------|
| 6. Dividends | | | |
| Dividends on ordinary shares | | | |
| Paid | 0.95p | 175,962 | 152,938 |
| Payable | 1.90p | 351,925 | 305,876 |
| | 2.85p | 527,887 | 458,814 |
| Dividends on preference shares (formerly preferred shares) | | | |
| November 1997 | 6.65p | 1,130,041 | 1,130,041 |
| May 1998 | 6.50p | 1,104,552 | 1,130,041 |
| | 13.15p | 2,234,593 | 2,260,082 |

Following the capital restructuring (see note 12) holders of preference shares are entitled, in priority to any payment of dividend on any other class of shares, to a fixed cumulative preferential dividend of 13.0p (net) for the remaining life of the Company. Prior to this, preferred shares were entitled to 13.3p (net).

Preference shares are only entitled to vote upon any resolution which would amend their rights, wind-up the Company or reduce its share capital.

Notes to the Accounts *continued*

7. Return per ordinary share

The return per ordinary share is based on 17,816,545 ordinary shares, being the weighted average number of ordinary shares in issue during the year (1997: 16,993,099), and on the figures shown below.

| | 1998 | | | 1997 | | |
|---|-------------|------------|-------------|-------------|-----------|-------------|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| | £ | £ | £ | £ | £ | £ |
| Return after taxation | 2,621,731 | 23,322,344 | 25,944,075 | 2,555,625 | 9,063,218 | 11,618,843 |
| Dividends on preference shares | (2,234,593) | — | (2,234,593) | (2,260,082) | — | (2,260,082) |
| Transfer/(appropriations) in respect of non-equity shares | — | 4,479,558 | 4,479,558 | — | (906,322) | (906,322) |
| | 387,138 | 27,801,902 | 28,189,040 | 295,543 | 8,156,896 | 8,452,439 |
| Return per ordinary share | 2.17p | 156.05p | 158.22p | 1.74p | 48.00p | 49.74p |

| | 1998 | 1997 |
|--|------|------|
| | £ | £ |

8. Investments

| | | |
|--|-------------|------------|
| Investments listed on a recognised investment exchange | 104,535,505 | 80,481,496 |
|--|-------------|------------|

| | Listed in UK |
|--|--------------|
| | £ |
| Opening book cost | 65,626,739 |
| Opening unrealised appreciation | 14,854,757 |
| Opening valuation | 80,481,496 |
| Movements in the year: | |
| Purchases at cost | 39,460,188 |
| Sales – proceeds | (39,191,092) |
| Sales – realised gains/(losses) on sales | 1,766,516 |
| Increase in unrealised appreciation | 22,018,397 |
| | 104,535,505 |
| Closing book cost | 71,819,936 |
| Closing unrealised appreciation | 32,715,569 |
| | 104,535,505 |

During the year, £4,157,585 of the prior year unrealised appreciation was transferred to realised as disclosed in note 13.

| | 1998 | 1997 |
|--|------|------|
| | £ | £ |

9. Debtors

| | | |
|--|-----------|---------|
| Securities sold for future settlement | 1,716,111 | 80,705 |
| Tax credits recoverable on franked investment income | 60,624 | 77,809 |
| Dividends and interest receivable | 395,146 | 515,815 |
| Other debtors | 6,893 | 3,258 |
| | 2,178,774 | 677,587 |

| | 1998 £ | 1997 £ |
|--|------------------|----------------|
| 10. Creditors | | |
| Amounts falling due within one year: | | |
| Securities purchased for future settlement | 1,956,176 | — |
| Other creditors | 38,285 | 40,035 |
| Dividends payable on preference shares | 1,104,552 | — |
| Dividends payable on ordinary shares | 351,925 | 305,876 |
| | 3,450,938 | 345,911 |

| | 1998 £ | 1997 £ |
|--|-----------|---------------|
| 11. Provisions for liabilities and charges | | |
| These are in respect of deferred taxation, and comprise: | | |
| Timing differences related to revenue income | — | 87,110 |
| | — | 87,110 |

| | | |
|--|----------|---------------|
| The movement on deferred taxation comprises: | | |
| Opening balance | 87,110 | 142,571 |
| Transfer of tax credits | (87,110) | — |
| Credited in respect of revenue | — | (55,461) |
| | — | 87,110 |

| | | |
|---|-------------------|-------------------|
| 12. Share capital | | |
| Authorised: | | |
| 18,000,000 13.0% cumulative preference shares of £1 each | 18,000,000 | 18,000,000 |
| 24,000,000 ordinary shares of 50p each | 12,000,000 | 9,000,000 |
| | 30,000,000 | 27,000,000 |
| Issued and fully paid: | | |
| 13.0% cumulative preference shares of £1 each in issue at beginning and end of year (16,993,099 shares) | 16,993,099 | 16,993,099 |
| Ordinary shares of 50p each: | | |
| In issue at beginning of year (16,993,099 shares) | 8,496,550 | 8,496,550 |
| Bonus issue of 1,529,257 shares | 764,628 | — |
| In issue at end of year (18,522,356 shares) | 9,261,178 | 8,496,550 |
| Total issued and fully-paid at end of year | 26,254,277 | 25,489,649 |

(a) On 23rd October 1997 at a Separate General Meeting of the holders of 6.3-13.3% cumulative limited participating preferred shares and at a Separate General Meeting of the ordinary shareholders and at an Extraordinary General Meeting of the Company, it was resolved that the authorised share capital of the Company be increased from £27,000,000 to £30,000,000 by the creation of 6,000,000 ordinary shares of 50p each. It was also resolved that the 6.3-13.3% cumulative limited participating preferred shares of £1 each be reclassified as 13.3% cumulative preference shares of £1 each (the 'preference shares') and that they receive a bonus issue of ordinary shares in the ratio of 9 ordinary shares for every 100 preference shares held.

(b) On 19th November 1997 at an Extraordinary General Meeting of the Company, it was resolved that the coupon on the Preference Shares be reduced from 13.3% to 13.0%.

Notes to the Accounts *continued*

| | Share premium account £ | Capital reserve – realised £ | Capital reserve – unrealised £ | Revenue reserve £ | Redemption reserve £ |
|--|----------------------------------|---------------------------------------|---|-------------------------|----------------------------|
| 13. Reserves | | | | | |
| Beginning of year | 7,224,415 | 26,733,400 | 14,854,757 | 2,891,102 | 4,479,558 |
| Realised gains on investments | — | 1,766,516 | — | — | — |
| Unrealised gains now realised | — | 4,157,585 | (4,157,585) | — | — |
| Transfer of redemption reserve following capital restructuring (see below) | — | 4,479,558 | — | — | (4,479,558) |
| Increase in unrealised appreciation | — | — | 22,018,397 | — | — |
| Expenses charged to capital | — | (328,693) | — | — | — |
| Tax relief on management fee to capital | — | 61,282 | — | — | — |
| Expenses re capital restructuring | — | (195,158) | — | — | — |
| Bonus issue of ordinary shares | — | (764,628) | — | — | — |
| Revenue deficit | — | — | — | (140,749) | — |
| | 7,224,415 | 35,909,862 | 32,715,569 | 2,750,353 | — |

Following the capital restructuring, as described in note 12, the redemption reserve previously set up to reflect the repayment entitlement of the cumulative limited participating preferred shares is no longer required and the balance has been transferred to capital reserve – realised.

14. Net asset value per share

The net asset value per share at the year end is as follows:

| | Net asset value per share attributable | | Net asset values attributable | |
|-------------------|---|--------------------|----------------------------------|-------------------------|
| | 1998 p | 1997 p | 1998 £ | 1997 £ |
| Ordinary shares | 474.4 | 349.2 ¹ | 87,861,377 | 64,679,782 ¹ |
| Preference shares | 100.0 | 100.0 ¹ | 16,993,099 | 16,993,099 ¹ |

¹Adjusted to take account of the capital reconstruction.

The movements during the year of the assets attributable to each class of share were as follows:

| | Ordinary shares £ | Preference shares £ | Total £ |
|---|-------------------------|---------------------------|--------------------|
| Total net assets attributable at beginning of year | 60,200,224 | 21,472,657 | 81,672,881 |
| Transfer of redemption reserve following capital restructuring (see note 13) | 4,479,558 | (4,479,558) | — |
| Total recognised gains for the year | 23,709,482 | 2,234,593 | 25,944,075 |
| Dividends appropriated in the year | (527,887) | (2,234,593) | (2,762,480) |
| Total net assets attributable at end of year | 87,861,377 | 16,993,099 | 104,854,476 |

| | 1998 £ | 1997 £ |
|---|-------------|-------------|
| 15. Reconciliation of movements in shareholders' funds | | |
| Opening shareholders' funds | 81,672,881 | 72,772,934 |
| Total recognised gains for the year | 25,944,075 | 11,618,843 |
| Dividends on preference shares | (2,234,593) | (2,260,082) |
| Dividends on ordinary shares | (527,887) | (458,814) |
| Closing shareholders' funds | 104,854,476 | 81,672,881 |

16. Cash flow statement

Reconciliation of revenue to net cash inflow from operating activities:

| | | |
|---|-----------|-----------|
| Income before interest payable and taxation | 3,182,644 | 3,145,418 |
| Script dividends received as income | — | (8,161) |
| Decrease in accrued income | 33,559 | 173,048 |
| (Increase)/decrease in other debtors | (3,635) | 11,283 |
| (Decrease)/increase in other creditors | (1,750) | 12,065 |
| Tax on franked income | (558,929) | (658,969) |
| Expenses charged to capital | (328,693) | (278,568) |
| | 2,323,196 | 2,396,116 |

Reconciliation of net cash flow to movement in net funds:

| | | |
|------------------------------------|-----------|-------------|
| Movement in net funds for the year | 644,316 | (4,007,834) |
| Net funds at beginning of the year | 946,819 | 4,954,653 |
| Closing net funds | 1,591,135 | 946,819 |

Analysis of net funds

| | As at 31st May 1998 £ | Cash flow 1997 £ | As at 31st May 1997 £ |
|--------------------------|--------------------------------|------------------------|--------------------------------|
| Cash at bank and in hand | 1,591,135 | 644,316 | 946,819 |

17. Transactions with Flemings

Details of the management contract are set out on page 17. The terms make allowance for the exclusion of management charges on investments held in funds managed by Flemings. No such investments were held during the year. The management fee paid to FITM for the year can be found in note 2, page 26. FITM was also paid £20,254 for the marketing of 'wrapper' products (1997: £19,161).

FITM carries out some of its dealing transactions through Robert Fleming & Co. Ltd., a fellow subsidiary of Robert Fleming Holdings. These transactions are carried out at arm's length. The commission paid in the year was £755 (1997: £3,065).

Notice of Meeting

Notice is hereby given that the thirteenth Annual General Meeting of The Fleming Geared Growth Investment Trust plc will be held at 25 Copthall Avenue, London EC2R at 2.30 pm on 16th September 1998 for the following purposes:

- 1 To receive and adopt the Directors' report, the annual accounts and the auditors' report for the year ended 31st May 1998.
- 2 To declare a final dividend on the ordinary shares.
- 3 To re-elect Mr JG Tregoning a Director of the Company.
- 4 To re-elect Mr JP de Blocq van Kuffeler a Director of the Company.
- 5 To re-appoint Ernst & Young as auditors to the Company and to authorise the Directors to agree their remuneration.

By order of the Board
Fleming Investment Trust Management Limited,
Secretary.
11th August 1998

Notes

- 1 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members 48 hours before the meeting ('the specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time also will apply for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
- 2 Any member of the Company entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him; and such proxy need not be a member. The lodging of a form of proxy does not prevent a member from attending and voting if he/she so wishes.
- 3 Any instrument appointing a proxy, to be valid, must be lodged at the Company's transfer office at the office of the Registrar not less than forty-eight hours before the time fixed for the Meeting.
- 4 Entry to the annual general meeting will be restricted to ordinary shareholders, with guests only by prior agreement.

Information about the Company

History

Your Company was incorporated on 3rd April 1984 as Save & Prosper Return of Assets Investment Trust Plc. It had a split capital structure and was due to be wound up between 2008/10. The £29.2m which was raised was invested in fixed proportions in three specialised unit trusts managed by Save & Prosper.

In June 1993 the Company was reorganised, changing its name to The Fleming Geared Income & Assets Investment Trust plc and adopting an investment objective of growth of income and capital from investment in the UK through a split capital structure.

In November 1997 the Company was further reorganised. The split capital structure was removed, the winding-up date was fixed at 30th November 2010 and the name of the Company was changed to the current form.

Fleming Investment Trust Management Limited has been the Company's manager and secretary since June 1993.

Financial Calendar

| | |
|---------------------------------------|---------------------------|
| Financial year end | 31st May |
| Half year results announced | January |
| Full year results announced | July |
| Annual General Meeting | September |
| Dividends on ordinary shares | In February and September |
| Dividends on preference shares | 31st May, 30th November |

Company Number

1805708

Market Information

The Company's shares are listed on the London Stock Exchange. The market price of the ordinary shares are shown daily in the Financial Times, Daily Telegraph and The Times.

The market price of the Units can be obtained by phoning the Fleming Helpline on 0500 500 324.

Share Transactions

The shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the Fleming Investment Trusts Share Plan, Personal Equity Plan and Pension Accounts.

Investing through Flemings

Flemings has a range of "wrapper" products available which enable investors to purchase Fleming investment trusts as follows:

Share Plan

The Fleming Investment Trusts Share Plan is a savings plan allowing investments in any of the Flemings trusts, as shown below. The minimum investment is £40 per month or a lump sum of £400. There are no charges on share purchases and switches. There is a 1% brokerage charge on sales. The normal spread between buying and selling prices applies.

Personal Equity Plan

The Company is a qualifying trust for PEP purposes which, under current regulations, means that the whole annual allowance of £6,000 for a general PEP can be invested in its shares. The Company's shares are available in the Fleming Investment Trusts Personal Equity Plan. The PEP allows investment in the qualifying Fleming trusts, as shown below. Shares held in the PEP are free of income tax and capital gains tax. The minimum investment is £100 per month or a lump sum of £1,000, subject to a maximum of £6,000 per person per tax year. The existing tax benefits of PEPs will remain unchanged until April 1999, after which a new tax-privileged vehicle, the Individual Savings Account (ISA), will be introduced. PEPs will no longer be available after this time although existing plans can continue to be held as PEPs.

Pension Account

Fleming Pension Accounts are suitable for the self-employed, employees not currently members of a company scheme and those employees wishing to make additional voluntary contributions. Under current regulations tax relief is available on all contributions and investments grow free of all income and capital gains tax. The minimum investment is £100 gross per month or £1,000 gross lump sum.

The Range of Fleming Investment Trusts

| | | |
|--|--|--|
| Fleming American¹ Capital growth from North American investments | Fleming Geared Growth¹ Growth of income and capital from a UK portfolio | Fleming Smaller Companies¹ Capital and income growth from UK smaller companies |
| Fleming Asian¹ Capital growth from Asian investments, excluding Japan | Fleming Income & Capital¹ Income and capital growth from UK investments through a split-capital structure | Fleming US Discovery¹ Capital growth from investing in US micro cap companies |
| Fleming Chinese¹ Capital growth from China-related investments | Fleming Income & Growth¹ Income and capital growth from higher-yielding investments through a split-capital structure | Fleming Worldwide Income¹ High income with capital growth through a split-capital structure from a portfolio of equities and bonds with international exposure |
| Fleming Claverhouse¹ Capital and income growth from UK investments | Fleming Indian¹ Capital growth from investment in India | Electra Investment Trust PLC which is independently managed by Electra Fleming Limited is also available in the Fleming Share Plan and Pension Accounts. It invests in a wide variety of private equity situations. Further details are available on request. |
| Fleming Continental European¹ Capital growth from Continental European investments | Fleming Japanese¹ Capital growth from Japanese investments | |
| Fleming Emerging Markets¹ Capital growth from emerging markets worldwide | Fleming Mercantile¹ Capital growth from a portfolio of medium and smaller UK companies | |
| Fleming Enterprise¹ Capital growth from medium-sized UK companies | Fleming Natural Resources¹ Capital growth from commodity and energy shares worldwide | |
| Fleming European Fledgeling¹ Capital growth from smaller Continental European companies | Fleming Overseas¹ Capital growth from overseas markets | |

¹Trusts eligible for £6,000 investment in the Fleming PEP

²Trusts eligible for £1,500 investment in the Fleming PEP

Please remember that the value of shares and the income from them can fall as well as rise and investors may not get back the full amount invested. Past performance is not necessarily a guide to the future. For trusts investing in Emerging Markets the risk to your capital may be greater. Exchange rate changes may cause the value of overseas investments to rise or fall. Unquoted investments may be illiquid and difficult to value and may be more volatile. The existing tax benefits of PEPs will remain unchanged until April 1999, after which a new tax-privileged vehicle, the Individual Savings Account (ISA), will be introduced. PEPs will no longer be available after this time although existing plans can continue to be held as PEPs. Issued by Fleming Investment Trust Services Limited, which is regulated by the Personal Investment Authority, and only sells unit trusts, recognised collective investment schemes, investment trust saving schemes, PEPs, life assurance and pension products offered by Flemings and Save & Prosper marketing group.

Contact Details

Manager, Secretary and Registered Office

Fleming Investment Trust Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ

Management Limited Telephone number: 0171 638 5858

Please contact Fraser Easton for administrative matters.

Auditor

Ernst & Young

Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH.

Registrar

Lloyds Bank Registrars Reference 1085, The Causeway, Worthing, West Sussex, BN99 6DA.

Telephone number: 01903 502 541

Notifications of changes of address and enquiries regarding certificates or dividend cheques should be made in writing to the Registrar quoting reference 1085.

Fleming Brochureline

Freephone 0500 500 161 or 0171 382 8989

Please use this service to order PEP, Pension Accounts or Share Plan literature and/or annual reports of the Fleming investment trusts.

Fleming Helpline

Freephone 0500 500 324 or 0171 382 8800

Please use this service if you have any general queries about Fleming trusts or any of their products.

Account Queries

If you have an account query and your Fleming investment trust shares are held in one of Flemings' "wrapper" products please call the appropriate department:

| | |
|--|--|
| The Fleming Investment Trusts Share Plan | Freephone 0800 136 666 or 01708 713 380 |
| The Fleming Investment Trusts PEP | Freephone 0800 829 100 or 01708 713 317 |
| Fleming Investment Trusts Pension Accounts | Freephone 0800 413 176 or 01722 414 888 |

You also may contact Flemings via the internet on