

2974633

Gartmore Fledgling Trust plc

Report and Accounts for the year to 30 June 2008

WEDNESDAY



A3DB73S3

A44

08/10/2008

11

COMPANIES HOUSE

www.gartmorefledglingtrust.co.uk

Contents

	Page
The Company	2
Overview	3
The Board of Directors	4
Chairman's Statement	6
The Manager	10
Manager's Review	11
Principal Investments	16
Sector Classification and Weightings	17
Financial Statistics	18
Analysis of Total Assets and Equity Shareholders' Funds	19
Dividend Calendar	19
Historical Record	19
Report of the Directors	20
Statement of Directors' Responsibilities	27
Corporate Governance Statement	28
Directors' Remuneration Report	34
Independent Auditor's Report	36
Income Statement	38
Reconciliation of Movement in Shareholders' Funds	40
Balance Sheet	41
Cash Flow Statement	42
Notes to the Accounts	43
Notice of Annual General Meeting	52
Financial Calendar	57
Shareholder Information	57
Corporate Information	58
Gartmore Investment Trusts	59
How to Find Us	59
Investing in Gartmore Investment Trusts	60
Glossary of Terms	Inside back cover

The Company

Investment Objective

Gartmore Fledgling Trust plc (the Company) seeks long-term capital growth in capital and dividends from investment predominantly in the constituents of the FTSE Fledgling (ex Investment Companies) Index (the Fledgling Index)

Investment Policy

The Company is managed using a hybrid investment style. For the most part, a policy of broad indexation of the Fledgling Index is adopted. An active overlay is then applied to up to a maximum of 35% of the portfolio. However, the Directors intend that no more than 30% of the Company's assets would normally be allocated to the active overlay. This overlay takes the form of overweighting and/or underweighting holdings in

- Fledgling Index companies, and/or
- AIM-traded companies which were formerly admitted to trading on the Official List and which meet the Fledgling Index market capitalisation criteria (as at the time of investment)

that are strongly favoured and/or less favoured by Gartmore's active investment process, and/or where directors have recently purchased or sold their own shares. The Company will not invest more than 20% of the Company's assets (as at the time of investment) in AIM-traded stocks which were formerly admitted to trading on the Official List. However, it is the Directors' intention that no more than 15% of the Company's assets (as at the time of investment) would normally be invested in such stocks.

Companies which meet the investment criteria above but which are considered unlikely to remain solvent on a one-year view will be excluded from the portfolio.

Benchmark Index

The Company's benchmark is the FTSE Fledgling (ex Investment Companies) Index. The Fledgling Index was established by the FTSE Actuaries UK Indices Committee as part of their range of indices following UK equities.

As at 30 June 2008, the Fledgling Index comprised 135 companies listed on the London Stock Exchange. Together, these companies represented the smallest 0.20% of the UK equity market by market capitalisation. The Index is fully rebalanced annually during December, and partially during the final month of each other quarter. On the date of the index's last full rebalancing in December 2007, it had a threshold maximum market capitalisation of approximately £78 million.

Total Assets and Equity Shareholders' Funds

£68,583,000 at 30 June 2008

Market Capitalisation of Ordinary Shares

£61,923,000 at 30 June 2008

Management Company

The Company's investments are managed by Gartmore Investment Limited under an Agreement that provides for six months' notice of termination given by either side.

Management Fee

The management fee, which is payable monthly in arrear, is calculated at a rate of 0.8% per annum on the aggregate value of the Company's net assets and borrowings up to £75.0 million, and 0.5% per annum thereafter.

Capital Structure & Voting Rights

The Company is an investment trust company with an issued share capital at 30 June 2008 comprising 19,783,580 Ordinary shares of 25p each. Ordinary shareholders are entitled on a poll at a general meeting to one vote in respect of each share held.

Continuation Vote

An Ordinary Resolution will be proposed at each Annual General Meeting of the Company that the Company shall continue to operate as an investment trust company. If such resolution is not passed and alternative proposals for the unitisation or the reconstruction of the Company are not approved, the Company will be wound-up.

ISA Status

Maximum investment through an ISA of £7,200 for the current tax year.

Registered Office

Gartmore House, 8 Fenchurch Place, London EC3M 4PB

Overview

of the year to
30 June 2008

- Net Asset Value per Ordinary share fell by 35.4%* over the year to 30 June 2008, compared with a fall of 35.8% in the FTSE Fledgling (ex Investment Companies) Index. The performance of the investment portfolio more than offset portfolio rebalancing costs during the year.
- Net Asset Value per Ordinary share rose by 8.4%* per annum over the five-year period to 30 June 2008 compared with a rise of 7.7% per annum in the FTSE All-Share Index. The Company's portfolio therefore outperformed the FTSE All-Share by 0.7% per annum.
- The Company's performance ranked 2nd in The Association of Investment Companies UK Smaller Companies universe over the ten-year period to 30 June 2008.
- The rebalancing of the Fledgling Index in December 2007 resulted in a step increase in the dividend yield. Consequently, the Board is recommending an increased final dividend of 3.5p (2007 2.3p) per Ordinary share. The aggregate dividend for the year to 30 June 2008 will therefore be increased by 50% to 6.0p (2007 4.0p) per Ordinary share.
- Fledgling companies remain more attractive than their larger counterparts. Key attractions include
 - Stronger balance sheets (the debt-to-equity ratio for Fledgling companies averages 20%, compared with 47% for the FTSE All-Share Index),
 - Lower valuations (the price-to-sales ratio of Fledgling companies is less than one third of FTSE All-Share counterparts whilst price-to-book value is less than one half),
 - Increased director purchases (there were more than 16.1 times as many director share purchases as sales during the year),
 - Rising takeover activity (on an annualised basis, more than 21% of the FTSE Fledgling (ex investment companies) Index has been acquired over the latest six months).

* On a mid-market capital basis

The Board of Directors

The Board consists of six non-executive Directors, all of whom are independent of the Company and the Manager

Jimmy West Chairman

Age 61

Length of Service Appointed a director on 24 November 1994

Experience A chartered accountant with extensive experience of public and private companies covering a broad range of business activities including financial services, industry and commerce. He is a former managing director of Lazard Brothers & Co Limited and chief executive of Lazard Asset Management Limited. He was previously managing director of Globe Investment Trust plc.

Current Appointments Non-executive chairman of New City High Yield Fund Limited, Jupiter Second Enhanced Income Trust PLC and Rurelec plc. He is also a non-executive director of British Assets Trust plc, GNE Group plc, IPSA Group PLC, JPMorgan Income & Capital Trust PLC, Shires Smaller Companies plc, UK Select Trust plc and a number of private companies.

Other connections with Trust or Manager None

Shareholding in Company 18,000 Ordinary shares

John Hancox Senior Independent Director and Chairman of the Remuneration Committee

Age 67

Length of Service Appointed a director on 3 August 1998

Experience A chartered accountant with broad industrial and commercial experience. He is a former managing director of Charterhouse Tilney Securities Limited. He has also served as a non-executive director and chairman of a number of listed and unlisted companies. He holds an MA in Economics from Cambridge University.

Current Appointments Non-executive chairman of Lowland Investment Company Plc and a non-executive director of a number of private companies.

Other connections with Trust or Manager None

Shareholding in Company: 60,000 Ordinary shares

James Kerr-Muir Chairman of the Audit Committee

Age 67

Length of Service. Appointed a director on 25 November 1994

Experience He is a former group finance director of Kingfisher plc. Prior to that, he was with Tate & Lyle PLC where he held the position of managing director UK division. He has also served as a non-executive director of a number of companies including Birmingham Midshires Building Society, Hardys & Hansons plc and Senior plc. He holds a BA in Law from Oxford University and an MBA from Harvard Business School.

Current Appointments Non-executive chairman of Acertec plc and Davenham Group plc.

Other connections with Trust or Manager None

Shareholding in Company 16,000 Ordinary shares

The Board of Directors

Rod Birkett

Age 47

Length of Service Appointed a director on 1 August 2008

Experience He began his career at stockbrokers Vickers da Costa in 1983 before moving to SG Warburg. In 1991, he joined Robert Fleming as a senior fund manager, Japanese equities and was subsequently appointed head of the firm's closed end funds business. He was joint head of Japanese equities at Thames River Capital from 2002 to 2006. He served as an executive committee member of The Association of Investment Companies between 2000 and 2002.

Current Appointments Executive director of Trust Associates Limited and a non-executive director of F&C UK Select Trust plc

Other connections with Trust or Manager None

Shareholding in Company Nil

Peter Dicks

Age 65

Length of Service Appointed a director on 30 November 1999

Experience Began his career at stockbrokers Joseph Sebag & Co in 1964. In 1973, he co-founded Abingworth plc, a venture capital company which focused on investment in unquoted technology-based companies in the United States.

Current Appointments Non-executive chairman of Daniel Stewart Securities PLC, Foresight 2 VCT PLC, Foresight 3 VCT PLC, Foresight 4 VCT PLC, Foresight Technology VCT PLC, Private Equity Investor PLC, Sportingbet Plc, SVM UK Emerging Fund plc, Unicorn AIM VCT PLC and Waterline Group PLC. He is also a non-executive director of Graphite Enterprise Trust PLC, Mears Group PLC, Polar Capital Technology Trust PLC and Standard Microsystems Corporation, a company incorporated in the United States of America.

Other connections with Trust or Manager None

Shareholding in Company 15,000

Nigel Whittaker

Age 59

Length of Service Appointed a director on 28 August 1998

Experience From 1982 to 1995 he was an executive director of retailer Kingfisher plc, during which time he was chairman of B&Q and group corporate affairs director. He also chaired the UK Government's Deregulation Taskforce for Retail, Tourism and Small Business. In 1995, he established a portfolio of directorships in smaller companies and was until recently non-executive chairman of Retail Decisions plc.

Current Appointments He is a founding partner of ReputationInc Limited.

Other connections with Trust or Manager: None

Shareholding in Company Nil

Mr Whittaker will be retiring as a Director of the Company at the conclusion of the Annual General Meeting on 24 September 2008.

Chairman's Statement

I hereby present the Annual Report and Accounts of Gartmore Fledgling Trust plc for the year to 30 June 2008

Performance

Following a significant downturn in the credit cycle, UK equities performed poorly during the year. Against a backdrop of rising risk aversion among investors, UK smaller companies had a very disappointing year and Fledgling companies demonstrated no immunity to falls. Over the year, the Company witnessed a decline in Net Asset Value per Ordinary share of 35.4% on a mid-market capital basis and 36.3% on a bid-to-bid capital basis. These returns were similar to the 35.8% decline recorded by the FTSE Fledgling (ex Investment Companies) Index but significantly worse than the 16.1% fall registered by the FTSE All-Share Index. The relative underperformance of the FTSE Fledgling Index can be largely attributed to its lower exposure to the mining and oil and gas sectors which have performed strongly and are better represented in the FTSE All-Share Index.

As we noted at the interim stage, such a disappointing relative performance by fledgling stocks as compared with larger companies is highly unusual. Clearly, performance over the past 12 months has dented the five-year record of the asset class, although the FTSE Fledgling Index does remain ahead of the FTSE All-Share Index over the five years to 30 June 2008, having recorded a gain of 49.7% in capital terms, representing a compound annual increase of 8.4%, compared with a capital gain of 44.9% and an annualised increase of 7.7% from the FTSE All-Share Index.

However, we should remember that the Company was formed to capture the long-term outperformance of the Fledgling asset class. The relative chart below shows that this outperformance remains impressive. Over the last 10 years, the FTSE Fledgling Index has gained 168.8% in capital terms, compared with a capital gain of 4.3% for the FTSE All-Share Index.

FTSE Fledgling (ex. Investment Companies) Index versus FTSE All-Share Index

Performance over the past year reflects an unusually sharp rise in investor risk aversion, despite the many ongoing attractions of Fledgling companies. These companies still have a greater capacity to grow than their larger counterparts yet they trade on significantly lower valuations. Since the beginning of 2008, value within the asset class has been reflected by a marked increase in takeover activity, a trend we expect to continue. Over the past year, there has also been a substantial increase in the dividend yield of the Fledgling Index, with dividends remaining more than twice covered by earnings.

Importantly, Fledgling companies also possess significantly less debt on their balance sheets than their larger counterparts. As we remarked at the interim stage, it is notable also that the Fledgling Index contains no banks while financials, in general, are under-represented. This adds to the attractions of the asset class in an environment where banks and other financial institutions are being compelled to mark-to-market their losses arising from failed credit investments and issue new shares at deeply discounted prices.

Chairman's Statement

Performance versus Competitor Companies

As a result of the weakness of the Fledgling sub-sector, described above, the Company's shorter term performance has suffered within its competitor universe. Over the long-term, however, the Company remains a strong performer. To 30 June 2008, the Company ranked second in its universe over ten years.

NAV Performance relative to AIC UK Smaller Companies Sector

Periods to 30 June 2008	Gartmore Fledgling Trust NAV Total Return %	AIC UK Smaller Companies Sector Size Weighted Average Return %	Ranking in Sector
1 Year	-35.4	-24.8	16/17
5 Years	+56.2	+95.0	15/17
10 Years	+202.3	+69.7	2/15

Sources: Fundamental Data Limited on behalf of AIC

All returns shown on unannualised bid-to-bid NAV total return (including income) basis.

Discount

The discount at which the Ordinary shares trade relative to their bid-priced Net Asset Value narrowed, from 14.8% at 30 June 2007, to 9.7% at 30 June 2008. This contrasted with the significantly greater discount of the AIC UK Smaller Companies sector median of 16.2% as at the end of June 2008.

As ever, the Board is mindful of the need to manage the discount at which the Ordinary shares trade as compared to the prevailing discount of the Company's peer group. Consequently, an active share buy-back policy remains in place. During the twelve months under review, 5.6% of the Ordinary shares in issue at the beginning of the period were repurchased. Such buy-backs have helped to enable the discount of the Company's Ordinary shares to be ranked 4th closest to Net Asset Value out of the 17 funds in the sector at 30 June 2008.

Revenue and Dividend

As reported at the half-year, the annual rebalancing of the Fledgling Index resulted in a step increase in the dividend yield. As a consequence, the portfolio produced a revenue return of 7.5 pence per Ordinary share for the year, compared with 3.9 pence for the previous year. Your Board is therefore recommending an increased final dividend of 3.5 pence per Ordinary share payable on 1 October 2008 to shareholders on the register on 5 September 2008. Taken together with the interim dividend of 2.5 pence per share paid in March, the total dividend will amount to 6.0 pence per share, compared with 4.0 pence per share for the previous year, an increase of 50%.

It is anticipated that Fledgling companies will maintain or increase their dividend payments during the year ahead, particularly in view of their high levels of dividend cover.

Modification to Investment Policy

At an Extraordinary General Meeting of the Company held on 28 November 2007, a modification to the Company's investment policy was approved.

Prior to the date of the meeting, a hybrid investment style had been followed which combined a policy of broad indexation of the FTSE Fledgling (ex Investment Companies) Index with an active overlay that had been applied to between 10% and 15% of the portfolio. The overlay took the form of overweighting holdings in those Fledgling companies that were strongly favoured by Gartmore's active investment process, and/or where directors had recently purchased their own shares. Conversely, constituents of the Fledgling Index which were considered unlikely to remain solvent on a one year view were excluded from the portfolio.

The modified investment policy retains the hybrid investment style, although the percentage of the Company's assets which may comprise the active overlay has been increased to a maximum of 35% (normally likely to be 30% or less). Within this percentage, up to a maximum of 20% (normally likely to be 15% or less) of the portfolio may be invested in AIM-traded companies which were formerly admitted to

Chairman's Statement

trading on the Official List and which meet the Fledgling Index market capitalisation criteria. Such AIM listed companies are expected to typically possess similar characteristics and risks to the constituents of the Fledgling Index.

By increasing the potential universe of investments available to the Company and at the same time increasing the size of the active overlay, the trading liquidity of the Company's portfolio should be enhanced and the enlarged active overlay should have greater scope to add value to offset the sometimes significant periodic portfolio rebalancing costs.

The Fledgling Index rebalancing exercise in December 2007 increased the number of constituents substantially and as a result the near term investment focus has been on the enlarged universe of Fledgling companies, particularly as recent declines in value have led to greater investment opportunities. Nevertheless, the active overlay has increased slightly and two investments have been made in the shares of AIM listed companies.

Board Changes

The Board acknowledges the need to refresh its membership from time-to-time. With this in mind, the process of selecting a new director was begun earlier this year through a specialist firm of search consultants. As a result, I am delighted to welcome Rod Birkett, who accepted our invitation to join the Board with effect from 1 August 2008. Rod has considerable fund management experience and knowledge of the investment trust sector, having been head of closed-end funds at JPMorgan Fleming and a member of the executive committee of the Association of Investment Companies.

Having served on the Board for some 10 years, Nigel Whittaker will be retiring as a Director of your Company at the conclusion of the forthcoming Annual General Meeting. I would like to take this opportunity to thank him for his valuable contribution to the Company's success during his tenure and for his wise counsel.

Manager

In my interim statement in February, I reported that the Gartmore team responsible for the day-to-day management of the Company's portfolio had been strengthened by the appointment of Harmesh Suniara, who joined Gartmore in May 2007 as an investment analyst. Harmesh has since taken on the responsibility of co-managing the Company's portfolio with Gervais Williams, following a change in Andrew Russell's responsibilities. Andrew has been associated with the management of Gartmore Fledgling since its launch in 1994 and has been co-manager of the Company's portfolio since 2001. On behalf of the Board, I would like to thank Andrew for his contribution to the performance of the Company.

VAT on Management Fees

At the half-year, I reported that value-added tax had ceased to be charged on management fees with effect from November 2007, following acceptance by HM Revenue & Customs (HMRC) of a ruling by the European Court of Justice that VAT is not chargeable on the provision of fund management services to investment trusts. At the time, we estimated that the Company was likely to recover between £600,000 and £700,000 in respect of claims submitted by the Manager for back VAT. However, since then, following a briefing note from HMRC, the Manager has lodged a further claim, which increases the potential recovery by a small degree. Discussions between the Manager and HMRC with regard to these claims are ongoing, although we expect the matter to be resolved by the end of this year. As it is not possible to quantify with any degree of accuracy the amount of the recovery, we have not recognised this as an asset in these accounts. Further details are provided in note 23 of the accounts.

Continuation Vote

Pursuant to the Company's Articles of Association, an Ordinary Resolution will once again be proposed at the Annual General Meeting on 24 September 2008 to the effect that the Company should continue in operation as an investment trust company. This continuation vote is important to shareholders as it gives them the power to decide whether or not the Company should continue in existence.

Chairman's Statement

Notwithstanding recent performance of the Fledgling market, your Board believes that the Company's investment approach will continue to produce the excellent long-term relative returns experienced in the past. It also considers that the Company provides a unique vehicle for investors to take advantage of the long-term outperformance of the Fledgling area of the stock market. The Directors accordingly recommend that shareholders vote in favour of the Ordinary Resolution, as they intend to do in respect of their own beneficial holdings.

Outlook

The past year has been dominated by the cascade effects of a significant downturn in the global credit cycle. Banks have absorbed very large losses as a result of their past investments in credit-based products and, in some cases, have been compelled to offer new shares and bonds to investors in order to account for a sharp deterioration in their capital strength. Lending between banks was substantially curtailed at points during the year.

A weakened financial sector raises important questions about how both the global and domestic economies can perform this year and next. Already, we have seen evidence of a reduction in interbank lending spilling over into fewer loans and mortgages being made available to consumers. During the first quarter of 2008, the UK economy grew by a downwardly-revised 0.3%, the slowest rate of quarterly growth in three years. In its half-yearly economic outlook report, released in early June, the OECD forecast that the UK economy will expand by just 1.8% this year and by only 1.4% in 2009. Meanwhile, consumer price inflation, which stood at 3.8% in June 2008, has become a serious issue. Rising inflation leaves less scope for interest rate reductions.

Outside the financials sector, corporate balance sheets are still relatively healthy for non-financial businesses. This is true particularly at the Fledgling end of the market which has lower exposure to the financials sector, compared with the FTSE All-Share Index. Furthermore, Fledgling companies have stronger balance sheets as highlighted by the debt-to-equity ratio for Fledgling companies which averages 20% compared with 47% for the FTSE All-Share Index. Companies with net cash on their balance sheets are relatively insulated from the increased tightness of credit markets. They are also able to finance acquisitions and, following recent sharp falls in the stock market, are in a good position to purchase quoted assets at very attractive levels. In turn, companies with such strengths may become takeover candidates themselves. Indeed, on an annualised basis, more than 21% of the Fledgling universe was acquired during the year under review.

Another characteristic that sets the sector apart is its relative cheapness. As at the end of June 2008, the companies comprising the FTSE Fledgling (ex Investment Companies) Index were valued at less than half the level of their larger competitors using the price-to-book valuation measure and at less than one-third on the price-to-sales ratio. A further noteworthy feature involves directors' dealings, as illustrated by the ratio of directors of Fledgling companies buying shares in their own businesses to those selling. This ratio averaged 2.7 times during the 12 months to the end of June 2007 but, following a surge in director purchases and no corresponding increase in director sales since April, this ratio rose to 16.1 times for the financial year to the end of June 2008. This sharp increase suggests that directors of Fledgling companies are confident about the prospects for their businesses and consider their assets to be undervalued.

Thus, notwithstanding the recent weakness of stock markets, not only in the UK but around the world too, and the more challenging economic conditions we face as we enter the second half of 2008, your Board considers the factors driving both the long-term performance of your Company and the FTSE Fledgling Index to be undiminished. Indeed, in several respects, the attractiveness of the asset class has improved over recent months. Moreover, your Board believes also that the Company's investment approach offers investors a unique way of accessing such returns.

Jimmy West
Chairman
26 August 2008



The Manager

Gartmore Investment Limited, a subsidiary of Gartmore Investment Management Limited, acts as the Investment Manager and Company Secretary to the Company

Gartmore is an independent fund manager that has been managing clients' investments for over 30 years. It offers a wide range of investment products and services, tailored to meet the varying needs of its clients.

Gartmore's investment specialists are concentrated in small, dedicated teams. Within these specialised units investment professionals have wide discretion, within an overarching risk framework, to follow their own views, implement decisions that best suit their particular areas of expertise and to add value through their own flair and individual skill.

Gartmore Investment Management Limited is owned by Gartmore's senior fund managers and executives, together with Hellman & Friedman LLC, one of the world's leading private equity firms.

The day-to-day management of the Company's portfolio is carried out jointly by Gervais Williams and Harmesh Suniara.

Gervais Williams joined Gartmore in 1993 and heads its award-winning UK smaller companies team. He has more than 20 years' fund management experience in the smaller companies sector. Prior to 1993, Gervais spent three years at Thornton Investment Management and five years at Throgmorton Investment Management. He graduated from the University of Liverpool in 1980 with an Honours degree in Engineering.

Harmesh Suniara joined Gartmore in 2007 as an investment analyst on the UK smaller companies team. He has 11 years' experience as a research analyst in the UK Small and Midcap sectors. He began his career trading derivatives on LIFFE before joining Williams de Broe in 1996 as an equities analyst. In 2004 he moved to KBC Peel Hunt. He graduated from Cambridge University in 1993 having read Physics and Theoretical Physics.

At their regular meetings, the Directors and the Manager's representatives review the Company's activities and performance, and determine investment strategy.

Gartmore Investment Limited is authorised and regulated by the Financial Services Authority.

Manager's Review

Investment Policy

The Company is managed using a hybrid investment style. At least 65% of the portfolio passively replicates the FTSE Fledgling (ex- Investment Companies) Index. An active overlay is then applied to up to 35% of portfolio value, including a maximum of 20% invested in AIM-traded companies that meet the Fledgling Index market capitalisation criteria and were formerly traded on the Official List. The active overlay takes the form of overweighting holdings in those Fledgling and AIM companies that are strongly favoured by Gartmore's active investment process, and/or where directors have recently purchased their own shares. Conversely, constituents of the Fledgling Index which are considered unlikely to remain solvent on a one year view are excluded from the portfolio.

This dual approach is seen as the most practicable way of obtaining exposure to the anticipated long-term outperformance of the Fledgling Index. It offers a widely diversified portfolio, similar in structure to that of the Fledgling Index. The active overlay then helps the Company to perform approximately in line with its benchmark over longer periods, by adding value to try to offset the sometimes significant periodic rebalancing costs. This was achieved in the latest financial year.

Performance

Over the very long term, the Fledgling segment of the market has significantly outperformed the FTSE All-Share Index. The 53-year period from 1 January 1955 to 1 July 2008 saw the market's smallest capitalised stocks, as represented by the MicroCap and Fledgling indices, deliver an annualised rate of return of 19.4%, whilst the FTSE All-Share Index produced an annualised return of 12.3%. Retail price inflation was 5.7% per annum over the same period, implying a real return of more than 13% per annum for the Fledgling sector.

The following table shows the investment performance of the Company's portfolio relative to its benchmark over various periods, and is based upon mid-market priced portfolio valuations to enable the most like-with-like comparison.

During the financial year to 30 June 2008, the portfolio outperformed the Fledgling Index by 0.6% on a mid-to-mid Net Asset Value basis. All of the relative outperformance was earned during the latest six months, when annual rebalancing costs were more than offset.

Manager's Review

Period	Gartmore Fledgling Trust Total Assets per Share Capital Return %	Benchmark Capital Return %	Relative Performance*
1 Year to 30 June 2004	+45.8	+46.3	-0.3
1 Year to 30 June 2005	+16.1	+14.7	+1.2
1 Year to 30 June 2006	+6.1	+5.4	+0.7
1 Year to 30 June 2007	+29.2	+31.9	-2.0
1 Year to 30 June 2008	-35.4	-35.8	+0.6
6 Months to 31 Dec 2007	-23.6	-23.2	-0.5
6 Months to 30 June 2008	-15.5	-16.4	+1.1
5 Years to 30 June 2008 #	+8.4 p.a.	+8.4 p.a.	0.0 p.a.
10 Years to 30 June 2008 #	+10.5 p.a.	+10.1 p.a.	+0.4 p.a.

Sources: Gartmore, Datastream

* Relative performances are calculated as compound relatives and based on more decimal places than shown

Annualised

Rebalancing

The nature of the Fledgling Index is that its constituents are smaller than those of the FTSE All-Share Index, with no gap between, or overlap in, the two indices' constituents. The FTSE Actuaries Committee undertakes a full annual review in December, when a 'threshold' market capitalisation is set to divide the two indices. This was set at approximately £78 million in December 2007. Quarterly, a smaller number of constituent companies move between the two indices, in cases where significant changes in market capitalisation have occurred during the quarter.

The annual rebalance in December 2007 resulted in a turnover of approximately 25% by value of the make-up of the FTSE Fledgling (ex Investment Companies) Index. A similar level of turnover is also required within the Company's portfolio, given the objective to broadly match the make-up of the Index, albeit with a somewhat greater degree of active flexibility this time given the recent modification to the Company's investment policy. Such a large proportion of turnover leads inevitably to the dealing costs that the active overlay policy has been augmented to mitigate.

Portfolio Construction

(a) Summary Risk Statistics

The portfolio is widely diversified over the Fledgling area of the market with investments held in 149 companies. The Fledgling (ex Investment Companies) Index comprises 135 companies with an overlap with our portfolio of 115 companies. The Beta of the portfolio is in line with Fledgling Index at 1.0. The key summary statistic is the tracking error of 1.8% against the Fledgling Index (Source: Northfield). This number estimates the typical range in performance around the index that might be expected in two out of three years. This is a reasonable level given the new, enlarged active element of the portfolio and the illiquidity of the fledgling segment of the market.

(b) Sector Weightings

The portfolio's sector positions are broadly similar to those of the benchmark as befits a predominantly index tracking approach. The table on page 17 shows the portfolio's weightings against the benchmark index as at the end of June 2008.

Characteristics of the FTSE Fledgling (ex Investment Companies) Index

The FTSE Fledgling Index possesses a number of differences in characteristics from larger company indices such as the FTSE All-Share Index or the FTSE 100 Index. In particular, the Fledgling Index has a significantly different industry distribution and different style biases.

Manager's Review

(a) Distribution by Market Capitalisation

The Fledgling Index represents the smallest listed companies on the London Stock Exchange that are not included in the FTSE All-Share (ex. Investment Companies) Index. The chart below shows the distribution of the constituents of the Fledgling Index by market capitalisation as at 30 June 2008.

(b) Sector Distribution

The Fledgling Index possesses significantly different sector weightings to the FTSE All-Share Index. In particular, industrials (notably support services) and technology are strongly represented. Conversely, the Fledgling Index has no exposure to oil & gas and is underweight mining, telecommunications and financials (particularly banks).

Industry Group Weightings of the FTSE Fledgling (ex. Investment Companies) Index and the FTSE All-Share Index

(c) Valuation

The constituents of the Fledgling Index continue to be valued significantly more cheaply than those of the FTSE All-Share Index using both price-to-sales and price-to-book value measures. For example, they are priced at just 47% of the level of larger companies using the price-to-book value measure and at only 29% using the price-to-sales ratio. These compare very favourably with their respective relative values of 80% and 48% a year ago. In addition, the yield of the Fledgling Index has more than doubled over the past year, from 2.0% at 30 June 2007, to 4.5% at 30 June 2008. This was principally the result of the December 2007 annual index rebalancing, which significantly changed the composition of the Fledgling Index.

Manager's Review

Valuation Measures at 30 June 2008	FTSE Fledgling (ex Investment Companies)	FTSE All-Share Index	Relative
Price/Sales Ratio	0.4x	1.4x	0.29
Price/Book Value Ratio	0.9x	1.9x	0.47
Price/Earnings Ratio	9.7x	9.3x	1.04
Dividend Yield	4.5%	4.4%	1.02

Notes: Price/Sales Ratio is calculated as Enterprise Value (market capitalisation plus net debt) to Sales (Source: UBS)

Price/Book Value Ratio excludes negative earners. (Source: UBS)

Price/Earnings Ratio shown is 2008 forecast. Excludes negative earners (Source: UBS)

Dividend Yield is shown net (Source: Datastream)

In aggregate, Fledgling companies are valued at less than one third of their FTSE All-Share counterparts using the price-to-sales measure. This relative cheapness is true across most industry sectors, as the following chart illustrates.

Sector Price-to-Sales Ratios of the FTSE Fledgling (ex Investment Companies) Index relative to the FTSE All-Share Index

(d) Growth, Financing and Profitability

Growth

Currently, consensus forecasts for both the earnings and dividend growth of larger UK companies are wide ranging and have a high level of uncertainty attached to them. However, it is anticipated that Fledgling companies will deliver somewhat more in terms of earnings growth, but about the same level of dividend expansion.

Financing

At 30 June 2008, the average level of dividend cover of 2.4 times earnings for Fledgling companies was the same as that for FTSE All-Share companies. At the end of the Company's year, the dividend cover of Fledgling companies was 22% higher on a relative basis. This reduction in cover comes as no surprise given that the average dividend yield of the Fledgling Index has more than doubled over the past year. Dividend cover above two times earnings indicates that Fledgling companies continue to possess a clear ability to pay their dividends.

The average debt to equity ratio for the Fledgling Index continues to compare very favourably with that of the FTSE All-Share Index. Over the year to 30 June 2008, the debt to equity ratio for the Fledgling Index declined from 21% to 20%, compared with an increase to 47% from 40% for the FTSE All-Share Index. Fledgling companies have carried lower levels of debt at all times since autumn 2001.

Manager's Review

Characteristics at 30 June 2008	Dividend Cover	Debt/Equity Ratio %
FTSE Fledgling (ex Investment Companies)	2.4x	20
FTSE All-Share	2.4x	47

Source: UBS

Dividend cover is only in respect of companies actually paying a dividend

Profitability

About one sixth of Fledgling company sales and, consequently, profits, originate from abroad. This compares to close to one half for larger companies. This is seen as positive given the current vagaries of the international environment. Average returns on equity also remain lower at the Fledgling end of the market. This underpins the continuing greater capability of Fledgling companies to grow their earnings and profits.

Characteristics at 30 June 2008	Overseas Sales as a Percentage of Total*	Average Return on Equity# %
FTSE Fledgling (ex Investment Companies)	15	9.8
FTSE All-Share	46	20.3

Source: * FactSet, Worldscope

UBS

(e) Takeover Activity

Takeover activity has accelerated markedly since the start of 2008. On an annualised basis, more than 21% of the Fledgling Index has been acquired during the last six months. This represents the highest level of takeover activity since 1999.

Corporates and venture capitalists retain sufficient confidence to take advantage of the long-term prospects of Fledgling businesses despite a weakening general economic background. They have continued to actively pursue niche opportunities as they have occurred, buoyed by the ongoing persistence of low valuations and the potential for strong earnings growth to be achieved in the Fledgling area.

Period	Takeovers as Proportion of the Portfolio %	Number of Takeovers
2001	16.8	45
2002	6.9	36
2003	10.8	30
2004	10.3	24
2005	8.7	15
2006	11.9	17
2007	15.5	13
2008 (First Half)	10.8	7

Gartmore Investment Limited
Manager
26 August 2008

Principal Investments at 30 June 2008

Company	Sector	Valuation £'000	Percentage of Portfolio %
Kewill Systems	Software & Computer Services	2,209 (1,944)	3.3 (1.8)
Office2Office	Support Services	1,842 (-)	2.7 (-)
Carrs Milling Industries	Food Producers	1,677 (1,061)	2.5 (1.0)
Carcelo	Chemicals	1,453 (1,832)	2.2 (1.7)
Bioquell	Health Care Equipment & Services	1,450 (1,691)	2.2 (1.5)
Microgen	Software & Computer Services	1,380 (1,292)	2.1 (1.2)
Trifast	Industrial Engineering	1,352 (2,046)	2.0 (1.9)
Dee Valley Group	Gas, Water & Multiutilities	1,306 (1,308)	1.9 (1.2)
Jarvis	Support Services	1,249 (-)	1.9 (-)
Porvair	Chemicals	1,222 (1,620)	1.8 (1.5)
Top Ten Investments		15,140	22.6
Dialight	Electronic & Electrical Equipment	1,199 (1,683)	1.8 (1.5)
Biocompatibles	Health Care Equipment & Services	1,199 (1,729)	1.8 (1.6)
Alphameric	Software & Computer Services	1,175 (1,377)	1.7 (1.3)
Smart (J)	Real Estate	1,165 (1,463)	1.7 (1.3)
Renold	Industrial Engineering	1,155 (2,970)	1.7 (2.7)
Goodwin	Industrial Engineering	1,140 (772)	1.7 (0.7)
Alterian	Software & Computer Services	1,128 (1,320)	1.7 (1.2)
Fiberweb	Support Services	1,107 (-)	1.6 (-)
Games Workshop	Leisure Goods	1,029 (-)	1.5 (-)
Trafficmaster	Technology Hardware & Equipment	1,011 (2,109)	1.5 (1.9)
Top Twenty Investments		26,448	39.3
Nestor Healthcare	Health Care Equipment & Services	1,007 (-)	1.5 (-)
MS International	Industrial Engineering	996 (928)	1.5 (0.8)
4imprint Group	Support Services	994 (-)	1.5 (-)
Alumasc Group	Construction & Materials	963 (2,270)	1.4 (2.1)
OPD Group	Support Services	956 (287)	1.4 (0.3)
Zotefoams	Chemicals	946 (1,210)	1.4 (1.1)
Acal	Support Services	931 (-)	1.4 (-)
Arc International	Technology Hardware & Equipment	913 (1,837)	1.4 (1.7)
Dawson Holdings	Support Services	912 (1,798)	1.3 (1.6)
Cosalt	General Industrials	900 (1,572)	1.3 (1.4)
Top Thirty Investments		35,966	53.4
Celsis International	Health Care Equipment & Services	869 (1,294)	1.3 (1.2)
Gresham Computing	Software & Computer Services	840 (1,764)	1.2 (1.6)
XP Power	Electronic & Electrical Equipment	816 (2,063)	1.2 (1.9)
Walker Crips Weddle Beck	General Financial	800 (1,102)	1.2 (1.0)
Waterman Group	Support Services	781 (1,330)	1.2 (1.2)
ClinPhone	Health Care Equipment & Services	777 (-)	1.1 (-)
Creston	Media	725 (-)	1.1 (-)
Havelock Europa	Household Goods	724 (1,705)	1.1 (1.6)
Alexandra	Personal Goods	715 (1,300)	1.1 (1.2)
Sinclair Pharma	Pharmaceuticals & Biotechnology	710 (-)	1.1 (-)
Top Forty Investments		43,723	65.0
Other listed investments (109 stocks)		23,578	35.0
Total Investments at Fair Value		67,301	100.0

Comparative valuations and percentage of portfolio for the previous year-end are shown in brackets

Sector Classification and Weightings

at 30 June 2008

Sector	Gartmore Fledgling Trust plc %	Fledgling Index (ex. Investment Companies) %	Overweight/Underweight %
Basic Materials	8.1	6.8	+1.3
Chemicals	6.4	5.5	+0.9
Mining	1.7	1.3	+0.4
Industrials	36.1	34.1	+2.0
Construction & Materials	5.0	5.4	-0.4
Electronic & Electrical Equipment	4.6	4.5	+0.1
General Industrials	2.3	3.4	-1.1
Industrial Engineering	9.2	7.1	+2.1
Support Services	15.0	13.7	+1.3
Consumer Goods	9.7	8.5	+1.2
Automobiles & Parts	1.0	1.0	-
Food Producers	3.2	2.6	+0.6
Personal Goods	1.1	0.9	+0.2
Leisure Goods	2.9	2.8	+0.1
Household Goods	1.5	1.2	+0.3
Health Care	10.9	12.8	-1.9
Health Care Equipment & Services	8.1	9.7	-1.6
Pharmaceuticals & Biotechnology	2.8	3.1	-0.3
Consumer Services	7.4	7.4	-
General Retailers	3.9	4.3	-0.4
Media	2.9	2.4	+0.5
Travel & Leisure	0.6	0.7	-0.1
Telecommunications	0.0	0.0	-
Fixed Line Telecommunications	0.0	0.0	-
Utilities	2.6	2.4	+0.2
Electricity	0.6	1.0	-0.4
Gas, Water & Multiutilities	2.0	1.4	+0.6
Financials	5.6	11.8	-6.2
General Financial	2.5	3.3	-0.8
Non-Life Insurance	0.0	1.5	-1.5
Real Estate	3.1	7.0	-3.9
Technology	19.6	16.2	+3.4
Software & Computer Services	14.8	12.4	+2.4
Technology Hardware and Equipment	4.8	3.8	+1.0
Total Investments	100.0	100.0	

Note

The above weightings reflect portfolio holdings (excluding liquidity) as at 30 June 2008. The Company's portfolio held 2% in cash on this date. As at 30 June 2008, sector differences were larger than has been the case historically, which is largely the result of the new enlarged active element of the portfolio.

Financial Statistics

to 30 June 2008

	At 30 June 2008	At 30 June 2007	Change %
Total Assets, Less Current Liabilities (£'000)	68,583	112,462	-39.0†
Total Assets, Less Current Liabilities, ex Revenue (£'000)	67,318	111,744	-39.8
FTSE Fledgling (ex Investment Companies) Index	3,815.6	5,944.7	-35.8
Market Capitalisation of Ordinary Shares in issue (£'000)	61,923	95,794	-35.4
Ordinary Shares			
Net Asset Value	346.7p	536.5p	-35.4†
Mid-market Price	313.0p	457.0p	-31.5

† The Company's assets were reduced during the year by £4,226,000 utilised in the repurchase and cancellation of 1,178,000 Ordinary Shares, representing 5.6% of the number of Ordinary Shares in issue at 30 June 2007. In broad terms, this reduction reflects the difference between the decrease of 39.0% in Total Assets and the decline of 35.4% in Net Asset Value per Ordinary share for the year to 30 June 2008.

	Year to 30 June 2008	Year to 30 June 2007
Revenue – Ordinary Share		
Net Revenue after taxation (£'000)	1,537	837
Revenue return per share*	7.50p	3.90p
Dividends per share	6.00p	4.00p
Total Expense Ratio	1.2%	1.3%

	Year to 30 June 2008	Year to 30 June 2007
Total Return per Ordinary share*		
Revenue	7.50p	3.90p
Capital	(196.20p)	120.16p
	(188.70p)	124.06p

* Based on the weighted average number of shares in issue during the year

Analysis of Total Assets and Equity Shareholders' Funds

	Valuation at 30 June 2007		Net Transactions	Appreciation/ (Depreciation)	Valuation at 30 June 2008	
Investments	£'000	%	£'000	£'000	£'000	%
UK Equities	109,180	97.1	(1,893)	(39,986)	67,301	98.1
Net Current Assets	3,282	2.9	(2,000)	–	1,282	1.9
Total Assets, less Current Liabilities	112,462	100.0	(3,893)	(39,986)	68,583	100.0
Equity Shareholders' Funds	112,462	100.0	(4,226)	(39,653)	68,583	100.0

Dividend Calendar

Ordinary Shares	Rate	Announced	XD Date	Record Date	Pay Date
Interim	2.50p	5.2.08	13.2.08	15.2.08	12.3.08
Final	3.50p	26.8.08	3.9.08	5.9.08	1.10.08
Total	6.00p	–	–	–	–

Historical Record

	Total Assets £'000	Net Asset Value per Ordinary Share p	Mid-Market Price per Ordinary Share p	Discount £'000	Mid-Market Price per Warrant p
31 December 1996	48,060	115.5	100.0	13.4	19.0
30 June 1998*	55,628	136.7	112.5	17.7	27.5
30 June 1999	51,087	144.9	108.0	25.5	17.5
30 June 2000	99,096	207.3	160.0	22.8	61.5
30 June 2001**	64,521	216.5	183.5	15.2	–
30 June 2002	58,367	206.5	179.5	13.1	–
30 June 2003	58,580	233.7	186.0	20.4	–
30 June 2004	79,470	340.7	297.0	12.8	–
30 June 2005	88,782	389.9	370.0	5.1	–
30 June 2006	89,864	414.5	362.8	12.5	–
30 June 2007	112,462	536.5	457.0	14.8	–
30 June 2008	68,583	346.7	313.0	9.7	–

*Accounting period extended to eighteen months.

**Excludes assets attributable to B Ordinary shareholders.

Report of the Directors

The Directors present their Report and the Accounts for the year ended 30 June 2008

Business Review

The Business Review has been prepared in accordance with The Accounting Standards Board Reporting Statement Operating and Financial Review and should be read in conjunction with the Chairman's Statement on pages 6 to 9, the Manager's Review on pages 11 to 15 and the analyses on pages 16 to 19

Nature and Status

The Company is an investment trust company and a member of The Association of Investment Companies. It is registered as a public limited company and is an investment company as defined by section 833 of the Companies Act 2006.

The Company was last approved by HM Revenue & Customs (HMRC) as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 in respect of the year ended 30 June 2007. This approval is subject to there being no subsequent enquiry under corporation tax self-assessment. The Company has been approved as an Investment Trust for all previous years. Since 30 June 2007, the Company has directed its affairs so as to be able to continue to qualify for approval by HMRC as an investment trust for tax purposes.

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Investment Objective

The Company seeks long-term capital growth in capital and dividends from investment predominantly in the constituents of the FTSE Fledgling (ex Investment Companies) Index (the Fledgling Index).

Investment Policy

The Company is managed using a hybrid investment style. For the most part, a policy of broad indexation of the Fledgling Index is adopted. An active overlay is then applied to up to a maximum of 35% of the portfolio. However, the Directors intend that no more than 30% of the Company's assets would normally be allocated to the active overlay.

This overlay takes the form of overweighting and/or underweighting holdings in

- Fledgling Index companies, and/or
- AIM-traded companies which were formerly admitted to trading on the Official List and which meet the Fledgling Index market capitalisation criteria (as at the time of investment)

that are strongly favoured and/or less favoured by Gartmore's active investment process, and/or where directors have recently purchased or sold their own shares. The Company will not invest more than 20% of the Company's assets (as at the time of investment) in AIM-traded stocks which were formerly admitted to trading on the Official List. However, it is the Directors' intention that no more than 15% of the Company's assets (as at the time of investment) would normally be invested in such stocks.

Companies which meet the investment criteria above but which are considered unlikely to remain solvent on a one-year view will be excluded from the portfolio.

This dual approach of broad indexation coupled with an active overlay is seen as the most practicable way of obtaining full exposure to the anticipated long-term outperformance of the Fledgling Index. It offers a widely diversified portfolio, close in structure to that of the Fledgling Index. The active overlay is intended to help the Company to perform in line with or slightly ahead of its benchmark index, by adding sufficient value at least to mitigate the Company's management fees and the sometimes significant portfolio dealing costs associated with the periodic rebalancing of the Fledgling Index.

Report of the Directors

Performance

As the Company's primary investment objective is to broadly match the capital performance of the Fledgling Index, the Directors consider the movement of the net asset value per Ordinary share, compared with the benchmark index, to be the key indicator of the Company's performance. Over the year to 30 June 2008, the net asset value per Ordinary share declined by 35.4% on a bid-to-bid capital basis, compared with a fall of 35.8% in the Fledgling Index. The Company's capital performance over the longer term is summarised in a table provided in the Manager's Review on page 12.

Although it is not a primary investment objective, the Company also seeks to provide shareholders with an increasing dividend. Subject to shareholders approving the final dividend, the total dividend per Ordinary share in respect of the year ended 30 June 2008 is 50% higher than the previous year.

The Directors also monitor the performance of the Company's Ordinary shares and, in particular, the level of discount at which the Ordinary shares trade relative to the net asset value. Over the year to 30 June 2008, the mid-market price of the Company's Ordinary shares declined by 31.5%. An active share buy-back policy is in place which seeks to address imbalances between supply and demand of the Company's shares and thereby minimise the volatility and level of the discount to net asset value, as compared to the prevailing discount of the Company's peer group. At 30 June 2008, the Company's share price stood at a discount of 9.7% to the underlying net asset value, compared with an average of 16.2% for the AIC UK Smaller Companies sector.

Additionally, the Board regularly reviews the costs of running the Company. For the year to 30 June 2008, the Company's total expense ratio (TER), which is an expression of the Company's management expenses as a percentage of average shareholders' funds, was 1.2%, compared with 1.3% for the previous year.

Financial Position and Revenue

At 30 June 2008, net assets amounted to £68,583,000, compared with £112,462,000 at 30 June 2007. All of the Company's investments are listed or quoted on recognised exchanges and would normally be realisable within a relatively short period.

The portfolio produced a net revenue profit in the year, after expenses and taxation, of £1,537,000, compared with £837,000 for the previous year. The Directors recommend a final dividend of 3.5p per Ordinary share which, subject to shareholders' approval, will be paid on 1 October 2008 to shareholders on the register on 5 September 2008. This dividend, together with the interim dividend of 2.5p per Ordinary share paid on 12 March 2008, makes a total for the year of 6.0p, compared with 4.0p last year.

Gearing

A £9 million uncommitted borrowing facility, which is provided by The Royal Bank of Scotland plc, is used from time to time to facilitate periodic rebalancing of the portfolio. Drawings on the facility, when made, are therefore normally short-term in nature.

Future Trends

Notwithstanding the current weakness in global equity markets and the more challenging economic background, the Directors believe that the attractive valuations of Fledgling companies, relative to their larger peers, and the positive factors driving both the long-term performance of the Company and the FTSE Fledgling Index, remain in place.

Report of the Directors

Principal Risks and Uncertainties

The Company's performance is dependent on the performance of the companies and securities markets in which it invests. Smaller company markets are, by their very nature, less liquid than their larger counterparts and therefore tend to be more sensitive to economic and other factors, and hence more volatile. A significant and/or prolonged fall in these equity markets would have a serious impact on the Company's net asset value and share price. The key characteristics and differences between the Fledgling Index and the larger UK equity markets are provided in the Manager's Review on pages 11 to 15.

The Company is permitted to invest in AIM companies which were formerly traded on the Official List. An investment in shares traded on AIM may be less liquid and may carry a higher risk than an investment in shares traded on the Official List. In addition, the rules of AIM and the continuing obligations imposed on the issuer are less demanding than those of the Official List.

The Company's ability to provide returns to shareholders and achieve its investment objective is dependent on the ability of the Manager to add further value through the active investment overlay.

The Company is also subject to the risk that the market rating of its Ordinary shares will fail to reflect its investment performance, as a consequence of poor sentiment towards equities in general or smaller companies in particular. The Board regularly reviews the relative level of discount against the sector, giving consideration to ways in which share price performance can be enhanced including marketing initiatives and effective communication of the Company's investment performance to existing and potential investors by the Manager and the corporate broker.

Like most other investment trust companies the Company has no employees other than the non-executive directors. The Company therefore relies on services provided by third parties, including, in particular, the investment manager and company secretary, Gartmore Investment Limited. As expanded in the Corporate Governance Statement on pages 28 and 33, the Board keeps under review the risks facing the Company and minimises operational risks through its arrangements with service providers and reviews of their services and internal controls.

The Company is an investment trust and as such, must comply with the requirements of Section 842 of the Income and Corporation Taxes Act 1988. A breach of these requirements may result in the Company losing its investment trust status and, as a consequence, becoming subject to tax on capital gains. The Board receives monthly reports from the Manager with regard to the Company's compliance with Section 842 requirements.

Other principal risks, and the Company's policies for managing these risks, are summarised in note 21 of the accounts.

Management and Administration

The Company's investments are managed by Gartmore Investment Limited in accordance with the terms of an Investment Management Agreement dated 3 March 2003, which provides for six months' notice of termination to be given by either party. The management fee is calculated monthly in arrear at 0.8% per annum on the value of the Company's Total Assets, less current liabilities up to £75.0 million and at 0.5% per annum thereafter. With effect from November 2007, no value-added tax (VAT) has been payable on management fees following the ruling of the European Court of Justice that fund management services provided to investment trust companies are exempt from VAT.

Gartmore Investment Limited provides the accounting, company secretarial and general administrative services required by the Company in connection with its business and operations under the terms of a Company Secretarial and Administration Agreement dated 3 March 2003. No separate fee is charged for these services.

Report of the Directors

The Bank of New York Mellon provides custodian services to the Company under a Custody Agreement with the Company dated 3 March 2003

Continuing Appointment of the Manager

In accordance with the Listing Rules published by the Financial Services Authority, the Board, through the Management Engagement Committee, has reviewed the performance of the Manager in managing the Company's portfolio. The review considered the Company's investment performance over both the short and longer terms, together with the quality and adequacy of other services provided by Gartmore Investment Limited, including company secretarial, accounting and marketing. The Committee also reviewed the appropriateness of the terms of the Investment Management Agreement, in particular the length of notice period and the management fee structure, and of the Company Secretarial and Administration Agreement.

The Board remains satisfied with investment performance under Gartmore's management and, in particular, with the individual fund managers assigned by Gartmore to manage the Company's portfolio. It is, therefore, the Directors' opinion that the continuing appointment of the Manager on the existing terms is in the interests of the Company's shareholders.

Directors

The Directors of the Company are shown on pages 4 and 5. With the exception of Mr R A Birkett, who was appointed a Director on 1 August 2008, all the present Directors served throughout the year ended 30 June 2008.

Mr N Whittaker will retire as a Director at the conclusion of the Annual General Meeting on 24 September 2008.

Having been appointed a Director since the last Annual General Meeting, Mr R A Birkett retires in accordance with the Articles of Association of the Company and, being eligible, offers himself for appointment by shareholders. In accordance with the requirements of the Combined Code on Corporate Governance regarding long-serving Directors, Mr J G West, Mr J R Kerr-Muir and Mr J P D Hancox, who have each served as Directors for more than nine years, also retire and, being eligible, offer themselves for re-election. The Board confirms that, having conducted a formal performance evaluation, each of the Directors seeking re-election continues to demonstrate his commitment to the Company and to perform his role effectively.

The Directors held the following beneficial interests in the Ordinary shares of the Company at 1 July 2007 and 30 June 2008. There have been no changes since 30 June 2008.

	At 30 June 2008	At 1 July 2007
J G West	18,000	18,000
P F Dicks	15,000	—
J P D Hancox	60,000	60,000
J R Kerr-Muir	16,000	16,000
N Whittaker	—	—

No Director has a contract of service with the Company, nor has any Director had such a contract in the last six months. The Directors are covered under a policy of directors' liability insurance arranged by the Company at its own expense.

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to their defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour.

Save as aforesaid, there were no contracts or arrangements existing at any time during the year, or since, in which a Director of the Company was materially interested, either directly or indirectly.

Report of the Directors

Share Capital

At 30 June 2007, the Company's issued share capital comprised 20,961,580 Ordinary shares of 25 pence each. During the year the Company repurchased 1,178,000 Ordinary shares with nominal value of £294,500, for cancellation. This represented approximately 5.6% of the issued share capital at 30 June 2007. The aggregate consideration paid by the Company was £4,226,000. At 30 June 2008, the Company had authority to repurchase a further 2,138,411 Ordinary shares, such authority to expire at the conclusion of the next Annual General Meeting of the Company. There were 19,783,580 Ordinary shares in issue at 30 June 2008. Ordinary shareholders are entitled on a poll at a general meeting to one vote in respect of each share held.

In April 2001, pursuant to restructuring proposals, a portion of the existing Ordinary shares was reclassified as 11,383,533 'B' Ordinary shares and 7,285,000 'S' Ordinary shares each having a nominal value of 25p each. The Company subsequently bought back for cancellation the entire issue of 'B' Ordinary shares and 'S' Ordinary shares, although they remained authorised but not issued. As part of changes to the Articles of Association of the Company it is proposed to reclassify the unissued 'B' Ordinary shares and 'S' Ordinary shares as Ordinary shares.

Substantial Shareholders

At the date of this Report, the Directors were aware of the following interests of 3% or more of the Company's issued share capital having unrestricted voting rights:

	Number of Ordinary shares	Percentage of Ordinary shares
Prudential plc	6,569,686	33.4
AXA Sun Life (including Sun Life Pensions Management – 8.9%)	2,712,812	13.8
JPMorgan Asset Management (including JPMorgan Investment Trust Fund – 8.0%)	2,085,000	10.6
Gartmore Investment Management clients	1,117,864	5.7
Legal & General Investment Management	790,431	4.0
State Street Bank & Trust clients	716,834	3.6

Going Concern

The Directors believe that it is appropriate to continue to prepare the accounts on a going concern basis as they consider that the assets of the Company are realisable within a reasonable timeframe and the Company has adequate financial resources to continue in operational existence for the foreseeable future.

The validity of the going concern basis depends on the outcome of the vote on the Ordinary Resolution which will be put to the Annual General Meeting authorising the Company to continue to operate as an investment trust company. In particular, no provision has been made for the costs of winding-up the Company, or of liquidating its investments in the event that the Ordinary Resolution is not passed at the Annual General Meeting. The value generated from the realisation of the Company's assets on a winding-up, or from any reconstruction proposals that the Directors might put forward cannot currently be estimated since this will be determined by investment markets at the time.

Supplier Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the equity markets in which it operates. All other creditors are settled on the due date for payment.

Report of the Directors

Section 992 Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006

- The Company's capital structure and voting rights are summarised on page 24
- Details of the most substantial shareholders in the Company are listed on page 24
- The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are considered on pages 28 and 29
- Amendment of the Company's Articles of Association and powers to issue or buy back the Company's shares require a special resolution to be passed by shareholders
- There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company, no agreements which the Company is party to that might affect its control following a takeover bid
- There are no agreements between the Company and its directors concerning compensation for loss of office

Audit Information

Each of the Directors confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as Auditors to the Company. Resolutions proposing their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting

Special Business of the Annual General Meeting

The Notice of Annual General Meeting on pages 52 and 53 includes three items of Special Business. Resolution 10 will be proposed as an Ordinary Resolution, while Resolutions 11 and 12 will be proposed as Special Resolutions

Resolution 10 – Continuation Vote

As part of the reorganisation proposals which were approved by shareholders at the Extraordinary General Meeting held on 24 April 2001, the Articles of Association were amended to provide that, *inter alia*, the Directors are required at every Annual General Meeting to propose an Ordinary Resolution that the Company continue operating as an investment trust company

The continuation vote is an important vote for shareholders and a means by which they may direct the future of the Company. If the continuation vote is not passed, the Directors are required to draw up proposals for the voluntary liquidation, unitisation or other reorganisation of the Company within 90 days of the continuation vote not being passed. If the proposals for the voluntary liquidation, unitisation or other reorganisation of the Company are not approved by shareholders by Special Resolution, the Directors must then convene a further general meeting at which an Ordinary Resolution to wind-up the Company will be proposed

Resolution 11 – Authority to Purchase Own Shares

The Company's Articles of Association permit the Company to redeem or purchase its own shares out of capital profits. Under the Financial Services Authority Listing Rules, a company is permitted to purchase up to 14.99% of its equity share capital through

Report of the Directors

market purchases pursuant to a general authority granted by shareholders in general meeting. During the year to 30 June 2008, approximately 5.6% of the Ordinary share capital as at 30 June 2007 was repurchased and cancelled.

The current authority, which permits the Company to purchase up to 14.99% of the Ordinary shares, expires at the conclusion of the forthcoming Annual General Meeting. The Board believes that the Company should continue to have authority to make market purchases of its own Ordinary shares for cancellation. Accordingly, a Special Resolution is proposed to authorise the Company to make market purchases for cancellation of up to 14.99% of the Company's issued Ordinary share capital at the date of the Annual General Meeting (equivalent to approximately 2,944,572 Ordinary shares if there is no change in the issued share capital between the date of this report and the Annual General Meeting to be held on 24 September 2008).

Resolution 12 – New Articles of Association

The Company proposes to adopt new Articles of Association to reflect the provisions of the Companies Act 2006 which came, or will come, into effect in 2007 and 2008 together with certain minor technical or clarifying changes. The principal changes are summarised in the Appendix to the Annual General Meeting on pages 54 to 56.

The remaining provisions of the Companies Act 2006 are expected to come into force during 2009. In addition, various regulations relating to certain of these provisions have yet to be finalised. Consequently, it will be necessary for the Company to undertake a further review of its Articles of Association in due course in order to reflect these other provisions. As these changes to the Articles of Association will be reasonably substantial, it is anticipated that the Company will adopt a further new set of Articles of Association at its Annual General Meeting in 2009.

The proposed new Articles showing all the changes to the current Articles are available for inspection at Gartmore House, 8 Fenchurch Place, London EC3M 4PB until the close of the Annual General Meeting.

Recommendation

The Directors consider that the above authorities are in the interests of the Company and shareholders taken as a whole and recommend that all shareholders vote in favour of the resolutions, as the Directors intend to in respect of their own beneficial holdings of Ordinary shares amounting in aggregate to 109,000 shares.

By Order of the Board
Gartmore Investment Limited
Company Secretary
26 August 2008



Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year. The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the accounts in accordance with applicable law and regulations.

Accordingly, the Directors have prepared the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates which they believe are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts.

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 for maintaining adequate systems of internal control, which enable them to ensure that the accounts and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on www.gartmorefledglingtrust.co.uk and are also accessible through www.gartmore.com, which is a website maintained by the Company's Manager. The work undertaken by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their own jurisdiction.

Statement under DTR 4.1.12

The Directors of the Company, whose names are shown on pages 4 and 5 of this Report, each confirm to the best of their knowledge that

- the accounts, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Jimmy West
Chairman
26 August 2008



Corporate Governance Statement

Introduction

The Board is accountable to shareholders for the governance of the Company's affairs

The Company is committed to maintaining high standards of corporate governance and to the principles of good governance as set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council (FRC) in June 2006 (the Combined Code) and the revised and updated AIC Code of Corporate Governance issued in February 2007 (the AIC Code)

Pursuant to the Listing Rules of the Financial Services Authority, the Company is required to provide shareholders with a statement on how the main and supporting principles set out in Section 1 of the Combined Code have been applied and whether the Company has complied with the provisions of the Combined Code

The Board has established corporate governance arrangements that it believes are appropriate to the business of the Company as an investment trust company

Statement of Compliance

In February 2007, the FRC, the UK's independent regulator for corporate reporting and governance responsible for the Combined Code, endorsed the revised AIC Code. The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and who follow the AIC Corporate Governance Guide for Investment Companies are meeting their obligations under the Combined Code and related disclosure requirements of the Listing Rules.

The Board believes that the Company has complied with the provisions of the Combined Code throughout the financial year ended 30 June 2008

The following statement describes how the Principles of Good Corporate Governance have been applied and the Code and the AIC Code followed

Independence of Directors

The Board consists of five non-executive Directors, all of whom are considered to be independent of the Company and the Manager

The Board subscribes to the AIC Code principle that long-serving Directors should not be prevented from forming part of an independent majority and does not believe that a director's length of tenure reduces his ability to act independently. Nevertheless, the Combined Code requires that directors who have served for more than nine years should be re-appointed by shareholders annually. Accordingly, Mr J G West, Mr J R Kerr-Muir and Mr J P D Hancox will retire as Directors at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board, through the Nomination Committee, has carefully reviewed the independent status of each Director and of the Board as a whole, with individual Directors abstaining from discussion concerning their own status. The Board has determined that Mr West, Mr Kerr-Muir and Mr Hancox have demonstrated that they are independent in character and judgement and that their broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders.

Senior Independent Director

The Senior Independent Director is Mr Hancox, who provides a channel for referral of any shareholder concerns and takes the lead in the annual evaluation of the Chairman.

Appointment and Re-appointment of Directors

The appointment of new Directors is considered by a Nomination Committee, which comprises the whole Board. New Directors are offered access to external training facilities to assist the process of induction, and relevant information is provided in a Letter of Appointment. Ongoing training requirements are dealt with on an ad hoc basis. No Director has a contract of service with the Company. Directors appointed by

Corporate Governance Statement

the Board are subject to appointment by shareholders at the first Annual General Meeting following their appointment

In accordance with the Articles of Association of the Company, each Director is required to retire and, if so desired, submit himself or herself for re-election at least every three years.

Performance of the Board

The Board has conducted a review of its own performance, together with that of the Chairman and of each individual Director, through questionnaires and discussion, and has concluded that in each case this has been satisfactory. In particular, it is considered that each of the Directors makes a significant contribution to the affairs of the Company and that Directors seeking re-election at the Company's forthcoming Annual General Meeting merit re-election by shareholders.

The Directors seek to ensure that the Board has an appropriate balance of skills, experience, ages and length of service. The biographies of the Directors shown on pages 4 and 5 of this Annual Report demonstrate the wide range of investment, commercial and professional experience that they contribute to the Board's deliberations. The size and composition of the Board is considered adequate for the effective governance of the Company.

Role of the Board

The Board has contracted the management of the investment portfolio, custodian and registrar services and the day-to-day accounting and company secretarial services to external providers under contracts entered into after proper consideration by the Board of the quality and cost of the services offered.

There is a formal schedule of matters specifically reserved for decision by the Board. At each Board Meeting the Directors follow a formal agenda, which includes review of the Company's net asset value, share price, discount, financial position, gearing levels, peer group performance, investment performance, asset allocation and transactions and any other relevant business matters to ensure that control is maintained over the affairs of the Company and that the published investment policy is followed. Further reports on the quality and effectiveness of investment controls, accounting records and management information maintained on behalf of the Company, and other relevant matters that should be brought to the Board's attention, are reviewed periodically. The Board regularly reviews investment strategy.

The Board meets formally at least six times a year. The Directors have regular contact with the portfolio manager and company secretary in the periods between the formal meetings. Additional Board meetings and Committee meetings are arranged as and when required.

The number of meetings of the Board and its Committees held during the year to 30 June 2008 and the attendance record of each Director are shown in the following table.

	Board	Audit Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee
Number of Meetings	6	3	1	1	1
Jimmy West	6	3	1	1	1
Peter Dicks	6	3	1	1	1
John Hancox	6	3	1	1	1
James Kerr-Muir	6	3	1	1	1
Nigel Whittaker	6	3	-	-	-

Corporate Governance Statement

Exercise of Voting Rights in Investee Companies

The Company has delegated the responsibility for voting on its behalf at investee company meetings to the Manager, Gartmore Investment Limited, on the basis that, subject to an overriding requirement to pursue the best economic interests of the Company and its shareholders, the Manager should take account of social, environmental and ethical factors in using the voting powers conferred by such investments. Resolutions of particular importance or contention are referred to the Board prior to exercise of a vote. The Manager reports to the Board quarterly on all votes exercised.

Relationship with Manager

The day-to-day management of the Company's portfolio has been delegated under contract to the Manager, Gartmore Investment Limited. One or more representatives of the Manager attend each Board meeting to report on portfolio transactions and performance during the period since the last Board meeting. Under the terms of the Investment Management Agreement, the Manager is required to follow specific investment objectives and restrictions. The Board reviews annually the controls in place to ensure compliance with the Company's investment objectives and restrictions and the Manager's policy statements on voting and corporate governance observance.

The Manager maintains ongoing communication with the Board between Board meetings and contacts the Board for specific guidance on significant issues.

Relationship with Shareholders

The Board recognises the importance of maintaining and improving communication between the Company and its shareholders, who are encouraged to attend and vote at the Company's Annual General Meeting. The Board supports the principle that the Annual General Meeting should in part be used to communicate with private investors. The Annual General Meeting provides private shareholders with a valuable opportunity to meet the Directors and the portfolio managers, to convey their views on the Company's performance and to discuss issues affecting their investment. Shareholder concerns should be addressed to the Board by writing to the Company at its Registered Office, as shown on page 58, or by telephoning the Manager, who reports such communications to the Board.

The Manager meets institutional shareholders on a regular basis and reports to the Board on matters raised at these meetings.

The Directors will be available at the Annual General Meeting to answer any questions raised by shareholders. At every Annual General Meeting, each substantial issue is dealt with in a separate resolution, and where a vote is decided on a show of hands the Chairman will subsequently report on the number of proxy votes lodged, including any abstentions. A poll will be taken in all circumstances where the show of hands does not represent the votes indicated by the proxies received. The Notice of Annual General Meeting is contained in the Annual Report and Accounts that is sent to shareholders at least 20 working days before the Meeting.

Detailed lists of shareholders are regularly reviewed at Board meetings and the Directors receive reports from the Manager's investor relations manager who is in regular direct contact with investors.

The Company's Interim and Annual Reports are designed to provide a full and readily understandable review of performance. Copies are despatched to shareholders by mail and are also available for downloading from the Manager's website, www.gartmore.co.uk. The Company's Net Asset Value is released daily to the Regulatory Information Service and can be viewed on the London Stock Exchange website, www.londonstockexchange.com. The Board is directly responsible for all statements regarding any corporate activity involving the Company.

Corporate Governance Statement

Company Secretary

The Directors have direct access to the advice and services of the corporate Company Secretary, Gartmore Investment Limited. The Company Secretary is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met.

Independent Professional Advice

Procedures are in place for individual Directors to seek independent professional advice on any matter concerning them in the furtherance of their duties at the Company's expense.

Committees of the Board

The Board has established an Audit Committee with clearly defined written terms of reference and duties. The Board is satisfied that at least one of the Committee's members has recent and relevant financial experience. The Audit Committee comprises all the Directors of the Company and is chaired by Mr J R Kerr-Muir. The Audit Committee meets at least twice a year, once with the external Auditors present and once with members of the Manager's compliance and corporate risk team in attendance. There are formal arrangements for considering accounting policies, financial statements, the Annual Report and Accounts, the Interim Report and internal controls, which are detailed below. The Audit Committee also reviews the terms of appointment and remuneration of the Company's Auditors, the effectiveness of the audit process and the maintenance of an appropriate relationship with them to ensure independence and objectivity. The provision of non-audit services by the Company's Auditors is considered and approved by the Audit Committee on a case-by-case basis. The Audit Committee is satisfied that Ernst & Young LLP is independent of the Company.

The Combined Code recognises that investment companies may find some of its standard provisions inappropriate in their particular circumstances. In this regard, the whole of the Company's Board of Directors continues to fulfil the responsibilities of the undermentioned committees, each of which meets twice a year and on such additional occasions as are considered necessary. Each of these committees has defined duties and responsibilities and, with the exception of the Remuneration Committee, which is chaired by Mr J P D Hancox, is chaired by the Chairman of the Board.

- the Management Engagement Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders, and also for reviewing the performance and cost effectiveness of the Company's other service providers,
- the Nomination Committee is responsible for reviewing the performance of individual Directors and the Board as a whole, for Board succession planning and for the nomination of new directors through an established formal procedure, and
- the Remuneration Committee is responsible for monitoring the remuneration of the Directors. The level of Directors' fees is reviewed by reference to the work involved, the level of responsibility and the fees paid by comparable investment trust companies.

Copies of the terms of reference for each Committee of the Board can be found on the Manager's website www.gartmore.co.uk or may be obtained from the Company Secretary.

Corporate Governance Statement

Internal Control

The Directors are responsible for the Company's systems of internal control

The Combined Code requires the Directors to review, on at least an annual basis, the effectiveness of the Company's systems of internal control, covering all controls, including business, operational, compliance and financial risk

Unlike the boards of most other listed companies, the boards of investment trust companies obtain the majority of their evidence as to whether internal controls are operating effectively from third party suppliers to whom investment management, custody, accounting and secretarial matters have been delegated. This means that an appreciation of the internal controls for an investment trust company requires directors to consider information from a number of independent sources, rather than from a consolidated single source covering a typical listed company's systems of internal control

In particular, Gartmore Investment Limited is responsible for the provision of investment management, accounting and company secretarial services, under the terms of the Investment Management Agreement and the Company Secretarial and Administration Agreement, referred to on page 22, and The Bank of New York Mellon provides custodian services under a separate Custody Agreement. Gartmore's system of internal control include organisational arrangements with clearly defined lines of responsibility and delegated authority, as well as control procedures and systems which are regularly evaluated and internally audited and which include control of delegated functions. Gartmore has delegated the provision of accounting, bookkeeping, valuation and trade processing services to HSBC Bank plc, but remains responsible to the Company for these functions

The Directors review reports from Gartmore on a regular basis concerning those aspects of Gartmore's systems relevant to the provision of services to the Company. A clearly defined investment strategy is set for the Manager and monitored by the Board, which regularly reviews the Company's investments, liquid assets and liabilities, investment transactions, and revenue and expenditure. The Manager is responsible for day-to-day monitoring of the Company's investments and for exercising voting rights effectively and responsibly, but overridingly in the best economic interests of the Company and its shareholders

On behalf of the Board of Directors, the Audit Committee reviews internal control reports, prepared to the standard set out by the American Institute of Certified Public Accountants in their auditing standard SAS70, from Gartmore Investment Management Limited, the Manager's immediate parent company, and from The Bank of New York Mellon

As the Company has no employees and its operational functions are undertaken by third parties, the Audit Committee does not consider it necessary for the Company to establish its own internal audit function. Instead, the Audit Committee relies on SAS70 and other internal control reports received from its principal service providers, particularly the Manager, to satisfy itself as to the controls in place

Twice a year, the Board formally considers the effectiveness of the system of internal control. The Board takes account of any risk management problems or compliance breaches identified previously, and receives reports from the Manager's compliance and operational risk officer. At the conclusion of that formal review, the Board decides whether any changes to the systems of internal control are required. The review covers the key business, operational, compliance and financial risks facing the Company in seeking to achieve its objectives. In arriving at its judgement of what constitutes a sound system of internal control, the Board considers the following factors

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective,

Corporate Governance Statement

- the threat of such risks becoming a reality,
- the Company's ability to reduce the incidence and impact of risk events, and
- the costs and benefits to the Company, or third parties, of operating the relevant controls

Against this background, the Board has split the review of risk and associated controls into five sections reflecting the nature of the risks being addressed as follows

- corporate strategy,
- published information, and compliance with laws and regulations,
- relationships with service providers,
- investment and business activities, and
- fraud and misappropriation

In assessing internal controls, the Board considered the following elements based on reports provided by third party suppliers

- control environment,
- identification and evaluation of risks and control objectives,
- information and communication, and
- control procedures

The Directors have reviewed the information provided to them. Whilst acknowledging their reliance in some respects on third parties, the Directors have reviewed the effectiveness of internal controls and are able to confirm that the internal controls in operation during the period from 1 July 2007 up to the date of this Annual Report continue to be appropriate to the Company's business activities and methods of operation, and that they operate effectively.

As described above, the ongoing process for identifying, evaluating and managing significant risks faced by the Company has been in place throughout the year under review and up to the date of approval of the Annual Report. Systems are in operation to safeguard the Company's assets and shareholders' investment, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. The Company's systems of internal control are designed to manage rather than eliminate risk and the system of internal control provides reasonable, but not absolute, assurance against material misstatement or loss.

The Company has complied fully throughout the year ended 30 June 2008, and up to the date of approval of the Annual Report and Accounts, with the provisions set out in the revised guidance on internal control published by the Financial Reporting Council.

By Order of the Board
Gartmore Investment Limited
Company Secretary
26 August 2008



Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. An Ordinary Resolution for the approval of this report will be put to shareholders at the Annual General Meeting on 24 September 2008.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are so indicated. The Auditors' opinion is included in their report on pages 36 and 37.

Remuneration Committee

The Board is comprised solely of non-executive Directors. The Company has no employees other than the non-executive Directors. The Board as a whole fulfils the function of the Remuneration Committee, which is chaired by Mr J P D Hancox.

Policy on Directors' Fees

In accordance with the Articles of Association of the Company, the aggregate remuneration of the Directors shall not exceed £125,000 per annum or such higher amount as may, from time to time, be decided by Ordinary resolution of the Company. Subject to this overall limit, the Board's policy is that remuneration of non-executive Directors should be comparable to that of other investment trusts of a similar size which have a similar capital structure and similar investment objectives, and should be set at a level sufficient to attract and retain directors of the calibre required to direct the Company's affairs. It is intended that this policy will continue for the year to 30 June 2009 and for subsequent years.

With effect from 1 July 2007, Directors' fees were increased from £24,000 to £26,000 for the Chairman of the Board, from £18,000 to £19,500 for the Chairman of the Audit Committee and from £16,000 to £17,500 for each of the other Directors.

Non-executive Directors are not eligible to receive bonuses, pension benefits, share options or other benefits.

Directors' Terms of Appointment

It is the Board's policy that none of the Directors should have a service contract. The terms of their appointment provide that Directors shall retire and be subject to appointment by shareholders at the first Annual General Meeting following their appointment by the Board, and be subject to re-appointment at least every third year after that. The terms also provide that the appointment may be terminated at any time by and at the discretion of either party upon one month's written notice. No compensation is payable to a Director on leaving office.

The table below shows the original date of appointment of the Directors and the expected Annual General Meeting at which they must next offer themselves for re-election.

	Original Date of Appointment	Annual General Meeting for re-election
Jimmy West	24 November 1994	2008
James Kerr-Muir	25 November 1994	2008
John Hancox	3 August 1998	2008
Peter Dicks	30 November 1999	2009
Rod Birkett*	1 August 2008	2011

* Subject to appointment by shareholders at the Annual General Meeting on 24 September 2008.

Mr Nigel Whittaker, who was appointed a Director in August 1998, will not be seeking re-election at the forthcoming Annual General Meeting.

Directors' Remuneration Report

Performance Graph

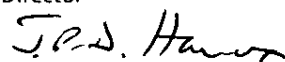
The Company's performance is measured against the FTSE Fledgling (ex Investment Companies) Index, as this is the Company's benchmark index. The graph below compares the total return on the mid-market share price of the Company's Ordinary shares over the five-year period to 30 June 2008 with the total return on the FTSE Fledgling (ex Investment Companies) Index and the broader UK equity market, as measured by the FTSE All-Share Index, over the same period.

Directors' Emoluments for the Year (Audited)

The Directors who served during the year ended 30 June 2008 received the following emoluments in the form of fees:

	2008 £	2007 £
Jimmy West (Chairman of the Board)	26,000	24,000
Peter Dicks	17,500	16,000
John Hancox (Senior Independent Director)	17,500	16,000
James Kerr-Muir (Chairman of the Audit Committee)	19,500	18,000
Nigel Whittaker	17,500	16,000
	98,000	90,000

No other emoluments or pension contributions were paid to or on behalf of any Director.



John Hancox
Chairman of the Remuneration Committee

Approved by the Board
on 26 August 2008

Independent Auditor's Report

To the Members of Gartmore Fledgling Trust plc

We have audited the accounts of Gartmore Fledgling Trust plc for the year ended 30 June 2008 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 23. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view, the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and the information given in the Report of the Directors is consistent with the accounts.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only The Company, Overview, The Board of Directors, Chairman's Statement, The Manager, Manager's Review, Principal Investments, Sector Classification and Weightings, Financial Statistics, Analysis of Total Assets and Shareholders' Funds, Dividend Calendar, Historical Record, Report of the Directors, Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, Notice of Annual General Meeting, Shareholder Information, Corporate Information, Gartmore Investment Trusts, Investing in Gartmore Investment Trusts and Glossary of Terms. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Independent Auditor's Report

Basis of audit opinion

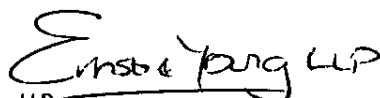
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008 and of its net return for the year then ended,
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the accounts



Ernst & Young LLP
Registered Auditor
London
26 August 2008

Income Statement

to 30 June 2008

	Notes	Revenue £'000	Year to 30 June 2008 Capital £'000	Total £'000
Income and Capital Profits				
Losses on investments held at fair value through profit or loss	2	–	(39,986)	(39,986)
Income from investments	3	2,653	–	2,653
Other income	3	21	–	21
Return before Expenses, Finance Costs and Taxation		2,674	(39,986)	(37,312)
Expenses				
Management fees	4	(689)	–	(689)
Other fees and expenses	4	(334)	(214)	(548)
Return before Finance Costs and Taxation		1,651	(40,200)	(38,549)
Finance Costs				
Interest payable	5	(113)	–	(113)
Return on Ordinary Activities before Taxation		1,538	(40,200)	(38,662)
Taxation	6	(1)	–	(1)
Return to Equity Shareholders after Taxation		1,537	(40,200)	(38,663)
Total Return per Ordinary share	8	7 50p	(196 20p)	(188 70p)

The total column above represents the Profit and Loss Account of the Company

The revenue and capital items derive from continuing activities

A Statement of Total Recognised Gains and Losses has not been presented as all gains and losses are recognised in the Income Statement

No operations were acquired or discontinued during the year

The Notes on pages 43 to 51 form part of these Accounts.

Income Statement

to 30 June 2007

	Notes	Revenue £'000	Year to 30 June 2007 Capital £'000	Total £'000
Income and Capital Profits				
Gains on investments held at fair value through profit or loss	2	–	26,118	26,118
Income from investments	3	1,955	–	1,955
Other income	3	57	–	57
Return before Expenses, Finance Costs and Taxation		2,012	26,118	28,130
Expenses				
Management fees	4	(877)	–	(877)
Other fees and expenses	4	(286)	(330)	(616)
Return before Finance Costs and Taxation		849	25,788	26,637
Finance Costs				
Interest payable	5	(11)	–	(11)
Return on Ordinary Activities before Taxation		838	25,788	26,626
Taxation	6	(1)	–	(1)
Return to Equity Shareholders after Taxation		837	25,788	26,625
Total Return per Ordinary share	8	3 90p	120 16p	124 06p

The total column above represents the Profit and Loss Account of the Company

The revenue and capital items derive from continuing activities

A Statement of Total Recognised Gains and Losses has not been presented as all gains and losses are recognised in the Income Statement

No operations were acquired or discontinued during the year

The Notes on pages 43 to 51 form part of these Accounts.

Reconciliation of Movements in Shareholders' Funds

for the year to 30 June 2008

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
At 30 June 2007		5,240	5,058	101,446	718	112,462
Net capital return from ordinary activities		-	-	(40,200)	-	(40,200)
Net revenue return from ordinary activities		-	-	-	1,537	1,537
Equity dividends paid	7	-	-	-	(990)	(990)
Repurchase and cancellation of Ordinary shares		(294)	294	(4,226)	-	(4,226)
At 30 June 2008		4,946	5,352	57,020	1,265	68,583

At 30 June 2006		5,420	4,878	78,845	721	89,864
Net capital return from ordinary activities		-	-	25,788	-	25,788
Net revenue return from ordinary activities		-	-	-	837	837
Equity dividends paid	7	-	-	-	(840)	(840)
Repurchase and cancellation of Ordinary shares		(180)	180	(3,187)	-	(3,187)
At 30 June 2007		5,240	5,058	101,446	718	112,462

*The revenue reserve represents the amount of the Company's reserves distributable by way of dividend

The Notes on pages 43 to 51 form part of these Accounts.

Balance Sheet

at 30 June 2008

	Notes	At 30 June 2008 £'000	At 30 June 2007 £'000
Fixed Assets			
Investments held at fair value through profit or loss	9	67,301	109,180
Current Assets			
Debtors – amounts receivable within one year	11	573	4,792
Cash at bank		896	87
		1,469	4,879
Current Liabilities			
Creditors – amounts payable within one year	12	(187)	(1,597)
Net Current Assets		1,282	3,282
Net Assets		68,583	112,462
Capital and Reserves			
Called-up share capital	13	4,946	5,240
Capital redemption reserve	14	5,352	5,058
Capital reserve	15	57,020	101,446
Revenue reserve	16	1,265	718
Equity Shareholders' Funds		68,583	112,462
Net Asset Value per Ordinary share	17	346 7p	536 5p

The accounts were approved and authorised for issue by the Board of Directors on 26 August 2008 and were signed on its behalf by

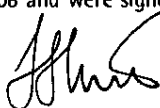
Jimmy West
Chairman

The Notes on pages 43 to 51 form part of these Accounts

Balance Sheet
at 30 June 2008

	Notes	At 30 June 2008 £'000	At 30 June 2007 £'000
Fixed Assets			
Investments held at fair value through profit or loss	9	67,301	109,180
Current Assets			
Debtors – amounts receivable within one year	11	573	4,792
Cash at bank		896	87
		1,469	4,879
Current Liabilities			
Creditors – amounts payable within one year	12	(187)	(1,597)
Net Current Assets		1,282	3,282
Net Assets		68,583	112,462
Capital and Reserves			
Called-up share capital	13	4,946	5,240
Capital redemption reserve	14	5,352	5,058
Capital reserve	15	57,020	101,446
Revenue reserve	16	1,265	718
Equity Shareholders' Funds		68,583	112,462
Net Asset Value per Ordinary share	17	346 7p	536 5p

The accounts were approved and authorised for issue by the Board of Directors on 26 August 2008 and were signed on its behalf by



Jimmy West
Chairman

The Notes on pages 43 to 51 form part of these Accounts.

Balance Sheet

at 30 June 2008

	Notes	At 30 June 2008 £'000	At 30 June 2007 £'000
Fixed Assets			
Investments held at fair value through profit or loss	9	67,301	109,180
Current Assets			
Debtors – amounts receivable within one year	11	573	4,792
Cash at bank		896	87
		1,469	4,879
Current Liabilities			
Creditors – amounts payable within one year	12	(187)	(1,597)
Net Current Assets		1,282	3,282
Net Assets		68,583	112,462
Capital and Reserves			
Called-up share capital	13	4,946	5,240
Capital redemption reserve	14	5,352	5,058
Capital reserve	15	57,020	101,446
Revenue reserve	16	1,265	718
Equity Shareholders' Funds		68,583	112,462
Net Asset Value per Ordinary share	17	346 7p	536 5p

The accounts were approved and authorised for issue by the Board of Directors on 26 August 2008 and were signed on its behalf by



Jimmy West
Chairman

The Notes on pages 43 to 51 form part of these Accounts.

Cash Flow Statement

to 30 June 2008

	Notes	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
Operating Activities			
Dividends and interest received from investments		2,427	1,950
Interest received on deposits		21	57
Expenses paid		(1,079)	(1,142)
Net Cash Inflow from Operating Activities	18	1,369	865
Servicing of Finance			
Bank overdraft interest paid		(119)	(5)
		(119)	(5)
Investment Activities			
Acquisitions of investments		(31,996)	(47,321)
Disposals of investments		37,448	49,752
		5,452	2,431
Equity Dividends Paid			
Ordinary shares		(990)	(840)
		(990)	(840)
Financing			
Cost of Ordinary shares repurchased		(4,238)	(3,183)
		(4,238)	(3,183)
Net Cash Inflow/(Outflow)		1,474	(732)
Reconciliation of Net Cash Inflow/(Outflow) to Movement in Net Cash/(Debt)			
Net (debt)/cash brought forward		(578)	154
Net cash inflow/(outflow)		1,474	(732)
Net cash/(debt) at 30 June	19	896	(578)

The Notes on pages 43 to 51 form part of these Accounts.

Notes to the Accounts

1 Accounting Policies

The principal accounting policies have been applied consistently throughout the year ended 30 June 2008 and are set out below

Basis of preparation

The accounts have been prepared on a going concern basis in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice for "Financial Statements of Investment Trust Companies" issued by the Association of Investment Companies in January 2003 (revised December 2005)

Revenue, Expenses and Interest Payable

Investment income includes dividends receivable from investments marked ex-dividend on or before the Balance Sheet date. Investment income is treated as revenue in the Income Statement, with the exception that dividends of a capital nature are treated as sales proceeds. Where the Company elects to receive its dividend in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Other income is accounted for on an accruals basis.

Management fees, other administrative expenses and interest payable are accounted for on an accruals basis and are charged to the Income Statement as a revenue item.

The Board believes that any allocation of management fees to capital is inappropriate as it would distort the tracking of the Company's capital performance against the FTSE Fledgling Index. Accordingly, management fees are treated as a revenue item in the Income Statement.

Expenses which are incidental to the acquisition of an investment are expensed through the Income Statement as a capital item. Expenses which are incidental to the disposal of an investment are deducted from the proceeds of the sale of the investment.

Taxation

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed at the Balance Sheet date where transactions or events that result in any obligation to pay more, or right to pay less, tax in the future have occurred at the Balance Sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Dividends Payable

Dividends payable to shareholders are recognised in the period in which they are paid and are shown in the Reconciliation of Movements in Shareholders' Funds.

Investments

All investments are classified as held at fair value through profit or loss. They are initially recognised on the trade date and measured, then and subsequently, at fair value. Fair value is assumed to be the bid price, or last traded price where no bid price is available. Changes in fair value are included in the Income Statement as a capital item and are not distributable by way of a dividend.

No provision for taxation is required in respect of any realised or unrealised appreciation of investments which arises, as the Company expects to continue to qualify as an investment trust for tax purposes, thereby rendering capital profits exempt from tax.

2 (Losses)/Gains on Investments held at Fair Value through Profit or Loss

	2008 £'000	2007 £'000
Realised (losses)/gains on disposal of investments	(392)	15,853
Unrealised gains recognised in earlier years	(5,161)	(1,758)
Net realised (losses)/gains on carrying values at the previous balance sheet date	(5,553)	14,095
Unrealised (losses)/gains arising during the year	(34,433)	12,023
	(39,986)	26,118

Notes to the Accounts

3 Dividends and Other Income	2008 £'000	2007 £'000
Income from UK listed investments		
Franked dividends	2,475	1,881
Unfranked dividends	178	74
	2,653	1,955
Interest on deposits	21	57
	2,674	2,012

4 Expenses	2008 £'000	2007 £'000
Revenue		
Management fees	656	746
Value-added tax*	33	131
	689	877
Other fees and expenses		
Directors' fees	98	90
Auditor's remuneration – statutory audit	19	19
General expenses	217	177
	334	286
	1,023	1,163

Capital		
Transaction costs incurred on acquisitions of investments	214	330

*No VAT has been charged on management fees since November 2007 following acceptance by HM Revenue & Customs that the provision of fund management services is exempt from VAT

5 Interest Payable	2008 £'000	2007 £'000
Bank overdraft	113	11

6 Taxation		
(a) Analysis of charge in year	2008 £'000	2007 £'000
Overseas tax	1	1
Total current tax for the year	1	1

(b) Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an investment trust (28%) (2007 30%)

The differences are explained below	2008 £'000	2007 £'000
Net revenue return before taxation	1,538	838
Corporation tax at 30%	346	251
Corporation tax at 28%*	108	–
Effects of		
UK dividends not subject to corporation tax	(731)	(564)
Expenses not deductible for tax purposes	8	5
Excess management expenses for which no relief taken	269	308
Overseas tax	1	1
Current revenue tax charge for the year	1	1

Notes to the Accounts

6 Taxation (continued)

Investment trusts are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation

*Under the Finance Act 2008, the rate of corporation tax was lowered to 28% from 1 April 2008

(c) Provision for deferred taxation

The Company has not recognised a deferred tax asset of £3,088,000 (2007 £2,864,000) in respect of unrelieved management expenses and non-trading loan relationship deficits. It is unlikely that these amounts will be utilised in future accounting periods unless the investment policy of the Company or the tax treatment is changed

7 Dividends on the Ordinary Shares				2008 £'000	2007 £'000
Amounts recognised as distributions to Ordinary shareholders in the year					
	Rate per share	Number of shares	Payment date		
2006 final	2 20p	21,591,580	9 October 2006	-	475
2007 interim	1 70p	21,456,580	9 March 2007	-	365
2007 final	2 30p	20,836,580	5 October 2007	479	-
2008 interim	2 50p	20,438,580	12 March 2008	511	-
				990	840

The total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered, is set out below

	Rate per share	Number of shares	Payment date		
2007 interim	1 70p	21,456,580	9 March 2007	-	365
2007 final	2 30p	20,836,580	5 October 2007	-	479
2008 interim	2 50p	20,438,580	12 March 2008	511	-
2008 final	3 50p	19,783,580	1 October 2008	692	-
				1,203	844
Revenue available for distribution by way of dividend				1,537	837

8 Total Return per Ordinary Share

The Total Return per Ordinary share is calculated on the adverse return to Ordinary shareholders of £38,663,000 (2007 return of £26,625,000) and 20,488,728 (2007 21,461,648) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year

The Revenue Return per Ordinary share is calculated on the return of £1,537,000 (2007 £837,000) and 20,488,728 (2007 21,461,648) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year

The Capital Return per Ordinary share is calculated on the adverse return of £40,200,000 (2007 return of £25,788,000) and 20,488,728 (2007 21,461,648) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year

Notes to the Accounts

9 Investments held at Fair Value through Profit or Loss	2008 £'000	2007 £'000
Book-cost brought forward	98,242	88,941
Acquisitions at cost (excluding transaction costs)	31,107	47,676
Proceeds of disposals* (net of transaction costs)	(33,000)	(54,228)
Net (loss)/profit realised on disposals	(392)	15,853
Disposals at cost	(33,392)	(38,375)
Book-cost at 30 June	95,957	98,242
Unrealised (depreciation)/appreciation of investments	(28,656)	10,938
Valuation of investments at 30 June	67,301	109,180

The investments are all equities which are either listed in the United Kingdom or traded on the Alternative Investment Market in the UK and are included in the Balance Sheet at fair value

Analysis of investments by place of listing

London Stock Exchange	66,486	109,141
Alternative Investment Market	815	39
Valuation of Investments at 30 June	67,301	109,180

The Company's investments are registered in the name of nominees of, and held to the order of, The Bank of New York Mellon, as custodians to the Company. There were no contingent liabilities in respect of the investments held at the year-end.

*Proceeds of disposals of investments include special dividends of £nil (2007: £192,000)

	2008 £'000	2007 £'000
The following transaction costs were incurred during the year		
On acquisitions	214	330
On disposals	53	82
	267	412

10 Significant Interests

At 30 June 2008 the Company held interests amounting to 3% or more of any class of capital in the following investee companies

	% of class
Fletcher King	4.3
Cardiff Property	3.6
600 Group	3.5
Parity Group	3.4
Alexandra	3.3
Office2Office	3.2
Porvair	3.2
Carrs Milling Industries	3.1
Carclo	3.1
Dee Valley Group	3.0
Trifast	3.0

Notes to the Accounts

11. Debtors	2008 £'000	2007 £'000
Amounts receivable within one year		
Investments sold	64	4,512
Prepaid expenses	22	19
Accrued income	487	261
	573	4,792

12 Creditors	2008 £'000	2007 £'000
Amounts payable within one year		
Investments purchased	10	685
Bank overdraft	–	665
Accrued expenses and interest	177	247
	187	1,597

The Company has an overdraft facility of £9,000,000 (2007 £9,000,000) with The Royal Bank of Scotland plc. Interest on any overdraft is charged at 1% over the bank's base rate. Drawings on the facility are repayable on demand.

13 Called-up Share Capital	2008 £'000	Authorised 2007 £'000
81,331,467 Ordinary shares of 25p each	20,333	20,333
11,383,533 'B' Ordinary shares of 25p each	2,846	2,846
7,285,000 'S' Ordinary shares of 25p each	1,821	1,821
	25,000	25,000
		Allotted, Called-up and Fully-paid
	2008 £'000	2007 £'000
19,783,580 (2007 20,961,580) Ordinary shares of 25p each	4,946	5,240

During the year to 30 June 2008, the Company repurchased 1,178,000 (2007 720,000) Ordinary shares at a cost of £4,226,000 (2007 £3,187,000). This represented approximately 5.6% of the Company's issued share capital as at 30 June 2007 and reduced the number of Ordinary shares from 20,961,580 to 19,783,580.

14 Capital Redemption Reserve	2008 £'000	2007 £'000
Balance brought forward	5,058	4,878
Nominal value of Ordinary shares repurchased	294	180
Balance at 30 June	5,352	5,058

15 Capital Reserve	2008 £'000	2007 £'000
Balance brought forward	101,446	78,845
(Losses)/gains on investments held at fair value through profit or loss	(39,986)	26,118
Transaction costs incurred on acquisition of investments	(214)	(330)
Cost of shares repurchased	(4,226)	(3,187)
Balance at 30 June	57,020	101,446

Notes to the Accounts

15 Capital Reserve (continued)

Under UK company law, there is no legal requirement for a company to distinguish in its accounts between distributable and non-distributable profits. The Institute of Chartered Accountants in England and Wales has issued guidance (TECH 01/08) stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be treated as realised, provided the relevant assets can be readily converted into cash. Given the illiquidity of the investments in which the Company is invested, none of the investments are considered to be sufficiently liquid to be regarded as readily convertible into cash. Accordingly, the split of Capital Reserve between realised and unrealised in order to determine distributable profits is as follows:

	2008 £'000	2007 £'000
Realised	85,676	90,508
Unrealised	(28,656)	10,938
Balance at 30 June	57,020	101,446

Under the terms of the Company's Articles of Association, sums comprising the Capital Reserve, both realised and unrealised, are available for distribution only by way of redemption or purchase of the Company's own shares.

16 Revenue Reserves	2008 £'000	2007 £'000
Balance brought forward	718	721
Net revenue return for the year	1,537	837
Dividends paid on Ordinary shares	(990)	(840)
Balance at 30 June	1,265	718

17 Net Asset Value per Ordinary Share

The Net Asset Value per Ordinary share is calculated on net assets of £68,583,000 (2007: £112,462,000) and 19,783,580 (2007: 20,961,580) Ordinary shares in issue at the year-end.

18 Cash Flow from Revenue Activities	2008 £'000	2007 £'000
Total return before finance costs and taxation	(38,549)	26,637
Less: capital return before finance costs and taxation	40,200	(25,788)
Revenue return before finance costs and taxation	1,651	849
Increase in accrued income	(226)	(3)
Increase in prepaid expenses	(3)	(6)
(Decrease)/increase in accrued expenses	(53)	25
	1,369	865

19 Analysis of Changes in Net Cash/(Debt)	At 30 June 2007 £'000	Cash Flow £'000	At 30 June 2008 £'000
Cash at bank	87	809	896
Bank overdraft	(665)	665	–
	(578)	1,474	896

20 Transactions with the Manager

Management fees were paid to Gartmore Investment Limited at the rate disclosed in the Report of the Directors, on page 22. Fees payable for the year amounted to £656,000 (2007: £746,000), plus value-added tax where applicable. At the Balance Sheet date, management fees totalling £95,000 (2007: £155,000) were accrued.

21 Financial Instruments Risk Management

The Directors manage investment risk principally through setting an investment policy (see page 2) that is approved by shareholders, by delegating management of the Company's investments to an investment manager under an agreement which incorporates appropriate duties and restrictions, and by monitoring performance in relation thereto. The Board's relationship with the investment manager is set out on page 30 of this Report. Internal control procedures and the Board's approach to risk is summarised on pages 32 and 33.

In pursuit of its investment objective (see page 2), the Company is faced with a variety of risks which could result in either a reduction in the Company's net assets or a reduction in the revenue available for distribution by way of dividend. The principal risks associated with the Company's financial instruments are market risk, liquidity risk and credit risk.

Market risk

Market risk comprises three types of risk: market price risk, interest rate risk and currency risk.

Market price risk

The Company is an investment company and as such its performance is dependent on the performance of the companies and securities in which it invests. Consequently, market price risk is the most significant risk to which the Company is exposed. The Company's investment objective and policy require it to invest predominantly in the constituents of the FTSE Fledgling (ex Investment Companies) Index. At 30 June 2008, companies comprising the Fledgling Index represented the smallest 0.2% of the UK listed equity market by market capitalisation. Fledgling companies are, by their very nature, riskier and significantly less liquid than larger companies and as a result their share prices tend to be more volatile. The principal risk characteristics of the portfolio and the key differences between the Fledgling Index and the FTSE All-Share Index are described in the Manager's Review on pages 11 to 15.

At 30 June 2008, the fair value of the Company's assets exposed to market price risk was £67,301,000 (2007: £109,180,000). The fair value of the investments in the portfolio is normally their bid-market price. The market price of investee companies' shares is subject to their performance, supply and demand for the shares and investor sentiment regarding the companies, or their industry sectors. The reduction in the value of assets exposed to market risk was attributable principally to a decline in the market prices of investments held.

During the year, the Company's investment policy was modified to address a shrinking universe of companies comprising the Fledgling Index by increasing the potential number of investments available to the Company and thereby providing a greater degree of risk diversification. As a result, the maximum percentage of the Company's assets which may comprise the active investment overlay was increased from 15% to 35%. In addition, the investment manager may invest up to 20% of the Company's assets in AIM-traded companies which were formerly admitted to trading on the Official List and which meet the Fledgling Index market capitalisation criteria. Nevertheless, by increasing the level of active investment overlay, certain investments may represent a more significant proportion (and others a lesser proportion) of the Company's total assets. Also, an investment in shares traded on AIM may be less liquid and may carry a higher risk than an investment traded on the Official List. As a result, the risk that the Company's performance will be adversely affected if any one of the investments comprising the active overlay were to perform badly is greater than would be the case if the Company's portfolio of investments were more diversified. As a consequence, the Company's returns may diverge from those of the Fledgling Index. At 30 June 2008, the active investment overlay represented approximately 17% of the investment portfolio by value, of which approximately 1% was in AIM-traded stocks.

The net increase in the benchmark index over the 10-year period to 30 June 2008 was 162.0%, with the annual movement over that period averaging 20.9%. This illustrates the volatility of the Fledgling sector and indicates that it could move by a similar percentage in the forthcoming financial year. Accordingly, to illustrate the Company's sensitivity to market prices, a 20.9% change to the market value of the equity portfolio at 30 June 2008 would generate a corresponding increase or decrease in the net asset value per Ordinary share of 20.5% and, because of the effect on the management fee, would have a converse effect on revenue return of around 0.5p per Ordinary share. The effect on capital return would be materially the same as the effect on net assets.

Notes to the Accounts

21 Financial Instruments Risk Management (continued)

Interest rate risk

The Company finances part of its activities through the use of a short-term overdraft facility of £9,000,000 provided by The Royal Bank of Scotland. Drawings on the facility are made from time to time to facilitate periodic rebalancing of the portfolio, are normally short term in nature and, when made, are generally arranged on a rolling weekly basis. The interest rate is 1% above the Bank's fluctuating base rate and no hedging of the rate is undertaken. The Manager minimises the risk of exposure to excessive interest costs by monitoring the Company's cash position on regular basis. During the year, the maximum drawing on the overdraft facility was £6,150,000 (2007 £5,950,000). The weighted average interest rate paid was 6.3% (2007 6.3%).

The Company also earns interest on its cash and short-term deposits although, generally, cash balances held are not significant. Where funds are placed on deposit, they are rarely fixed for periods of more than one week.

At the year-end, financial assets and liabilities exposed to floating interest rates were as follows:

	2008 £'000	2007 £'000
Financial Assets		
Cash at bank	896	87
Financial Liabilities		
Bank overdraft	–	(665)

The Company has no direct exposure to fixed interest rates.

The year-end amounts are not representative of the exposure to interest rates either during the year just ended or in the year ahead, since the level of borrowings and/or cash held are determined to a great extent by the level of takeovers in the Fledgling sector and by the effects of the annual rebalancing. However, to illustrate the potential sensitivity to changes in interest rates, if the overdraft facility of £9,000,000 was fully drawn, a change of 0.5% in the rate of interest charged would, over the course of a year, amount to £45,000, less than 0.1% of year-end net assets.

Interest rate changes may have an impact on the earnings of companies held within the portfolio and therefore may have a significant impact on the market value of the Company's investments.

Currency risk

At 30 June 2008, all of the Company's investments were priced in sterling. Although there may be occasions when the Company will hold investments denominated in currencies other than sterling, the Company's exposure to movements in exchange rates relative to sterling is unlikely to have a material impact on either the value of the portfolio or on the revenue return.

Credit risk

Credit risk is the Company's exposure to financial loss from failure of a counterparty to deliver securities or cash for acquisitions or disposals of investments or to repay deposits. The Company manages credit risk by using brokers from a database of approved financial institutions who have undergone rigorous due diligence tests by the Manager's Risk Management Team and by dealing through Gartmore Investment Limited with banks approved by the Financial Services Authority.

At 30 June 2008, the maximum exposure to credit risk was £960,000 (2007 £4,599,000), comprising:

	2008 £'000	2007 £'000
Cash at bank	896	87
Investments sold awaiting settlement	64	4,512

All of the above financial assets are current, their fair values are considered to be the same as the values shown and the likelihood of default is considered to be low.

Notes to the Accounts

21 Financial Instruments Risk Management (continued)

Liquidity risk

Liquidity risk is the possibility of the Company failing to realise sufficient assets to meet its financial obligations. The Company minimises this risk by investing in primarily marketable securities which can be expected to generate cash inflows and by ensuring that it has adequate cash and credit facilities in place to meet cash outflows on liabilities. The Company's liquidity is held in sterling, almost entirely on interest-bearing current accounts or short-term deposits in the money market. Deposits are rarely fixed for terms in excess of one week and, if amounts are substantial, are placed with different deposit takers so that, at any given time, deposits do not exceed £2,500,000 with any one deposit taker.

Modifications to the Company's investment policy during the year mean that the Company has a larger potential number of companies available in which to invest with a smaller average investment size which should reduce liquidity risk.

At 30 June 2008, the fair value of financial liabilities was £187,000 (2007: £1,597,000), comprising

	2008 £'000	2007 £'000
Due within one month		
Investments purchased awaiting settlement	10	685
Bank overdraft	–	665
Accrued expenses and interest	177	247

Gearing

The Company does not use gearing as a strategic tool. However, the Company does have in place an overdraft facility of £9,000,000 which is used from time to time to facilitate rebalancing of the portfolio. At 30 June 2008, there was no bank gearing (2007: £665,000).

As noted above in the section dealing with interest rate risk, the level of borrowings and/or cash held during the year are determined to a great extent by the level of takeovers in the Fledgling sector and by the effects of the annual rebalancing.

22 Capital Management Policies and Procedures

The Company's capital is represented by its net assets, which are managed to achieve the Company's investment objective, set out on page 2.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- (i) the planned level of gearing through the Company's overdraft facility,
- (ii) the need to buy back or issue equity shares, and
- (iii) the determination of dividend payments.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is subject to externally imposed capital requirements through the Companies Act, with respect to its status as a public company.

In addition, with respect to the obligation and ability to pay dividends, the Company must comply with the provisions of Section 842 Income and Corporation Taxes Act 1988 and the Companies Act 2006 respectively.

These provisions are unchanged since the previous year and the Company has complied with them.

23 Contingent Asset

In November 2007, HM Revenue & Customs (HMRC) declared its acceptance of a ruling by the European Court of Justice that the provision of fund management services to investment trusts should be exempt from value-added tax (VAT). The Manager has lodged claims with HMRC to recover VAT paid from January 2001 and, following a further HMRC brief published in February 2008, has lodged a claim in respect of the period from commencement of business in December 1994 to December 1996. The aggregate amount of these claims is £826,741. It is not possible to quantify with any degree of accuracy the amount the Company will actually recover or the timescale for receipt. In view of this uncertainty, no asset has been recognised in these accounts.

Notice of Annual General Meeting

THIS NOTICE OF ANNUAL GENERAL MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your holding in Gartmore Fledgling Trust plc, please send this document, together with the accompanying documents to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Gartmore Fledgling Trust plc will be held at Gartmore House (see page 59), 8 Fenchurch Place, London EC3M 4PB, on Wednesday, 24 September 2008 at 11 30 a.m. for the following purposes

ORDINARY BUSINESS

To consider and, if thought fit, to pass the following resolutions, which will be proposed as Ordinary Resolutions

THAT

- 1 the Report of the Directors and the Accounts for the year ended 30 June 2008, together with the Report of the Auditors be received,
- 2 a final dividend of 3.5p per Ordinary share be declared,
- 3 the Directors' Remuneration Report for the year ended 30 June 2008 be approved,
- 4 Mr R A Birkett be appointed as a Director,
- 5 Mr J G West be re-elected as a Director,
- 6 Mr J R Kerr-Muir be re-elected as a Director,
- 7 Mr J P D Hancox be re-elected as a Director,
- 8 Ernst & Young LLP be re-appointed as Auditors, and
- 9 the Directors be authorised to fix the Auditors' remuneration

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution, which will be proposed as an Ordinary Resolution

THAT

- 10 the Company shall continue to operate as an investment trust company

To consider and, if thought fit, to pass the following resolutions, which will be proposed as Special Resolutions

THAT

- 11 the Company be and is hereby generally and unconditionally authorised, in accordance with Section 166 of the Companies Act 1985 (the "Act"), to make one or more market purchases (within the meaning of Section 163(3) of the Act) of Ordinary shares of 25p each in the capital of the Company provided that
 - (a) the maximum number of Ordinary shares hereby authorised to be purchased shall be 14.99% of the Company's issued Ordinary share capital at 24 September 2008, the date of the Annual General Meeting (equivalent to approximately 2,944,572 Ordinary shares at 26 August 2008),
 - (b) the minimum price which may be paid for an Ordinary share shall be 25p,

Notice of Annual General Meeting

- (c) the maximum price which may be paid for an Ordinary share shall be an amount equal to the highest of (i) 105% of the average of the middle market quotations for an Ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary share is purchased, or (ii) the price of the last independent trade, or (iii) the highest current independent bid,
 - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution,
 - (e) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract, and
 - (f) any Ordinary shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and any applicable regulations of the United Kingdom Listing Authority, held as Treasury Shares
- 12 the Articles of Association of the Company laid before the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the current Articles of Association, with effect from the conclusion of this Annual General Meeting

By Order of the Board
Gartmore Investment Limited
Company Secretary
26 August 2008



NOTES

- (1) The current Articles of Association and the proposed new Articles of Association of the Company together with copies of the terms of appointment of Directors will be available for inspection at Gartmore House 8 Fenchurch Place, London EC3M 4PB from 26 August 2008 until the close of the Annual General Meeting
- (2) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 the Company has specified that only those holders of Ordinary shares registered on the Company's Register of Members at 6.00 p.m. on 22 September 2008 shall be entitled to attend and vote at the Meeting in respect of Ordinary shares registered in their name at that time. Changes to entries on the Register of Members after 6.00 p.m. on 22 September 2008 shall be disregarded in determining the rights of any person to attend and vote at the Meeting
- (3) A Member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and on a poll, vote instead of him/her, provided that each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. You may not appoint more than one proxy to exercise rights attached to any one Ordinary share. A proxy need not also be a Member of the Company but must attend the Meeting to represent you. Completion and return of the Form of Proxy will not preclude Members from attending and voting at the Meeting
- (4) A Form of Proxy is enclosed for use in connection with the business set out above. To be valid the Form of Proxy must be deposited at the offices of the Company's Registrars not less than 48 hours before the time fixed for the Meeting or any adjournment thereof
- (5) Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them
- (6) As at the date of this Notice, the Company's issued share capital comprises 19,643,580 Ordinary shares, with each share carrying the right to one vote and, therefore, the total number of voting rights in the Company as at 26 August 2008 is 19,643,580
- (7) The Register of Directors' Interests in the capital of the Company will be available for inspection at the Meeting
- (8) No Director has a contract of service with the Company
- (9) Members are requested to notify the Company's Registrars of any change of address. This Report is forwarded to the address at present registered for communications.

In the event of queries regarding your shareholding, please contact the Company's Registrars either in writing to Equiniti Limited, Finance House, Orchard Brae, Edinburgh EH4 1WQ or by calling 0870-384 2428. Calls are charged at 8p per minute from a BT landline. Calls from other telephone networks may be higher and from mobiles will be considerably more.

Appendix to Notice of Annual General Meeting

Explanatory Notes on the Principal Changes to the Company's Articles of Association to take effect from the date of the Annual General Meeting, conditional on the passing of Resolution 12

It is proposed in resolution 12 to adopt new articles of association (the "New Articles") in substitution for and in order to update the Company's current articles of association (the "Current Articles"), primarily to take account of changes in English company law brought about by the Companies Act 2006

The principal changes introduced in the New Articles are summarised in this Appendix. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in this Appendix. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 53 of this document.

Share Capital

Transfer of shares

Under the Companies Act 2006, a company must either register a transfer or give the transferee notice of, and reasons for, its refusal to register the transfer. Any registration of a transfer or notice of refusal must be made or given as soon as practicable and in any event within two months from the date that the transfer is lodged with the company. The New Articles reflect these requirements.

Removal of unused provisions

Articles in the Current Articles relating to B Shares, S Shares, B Loan Notes and S Loan Notes have been deleted as the Company no longer has B Shares, S Shares, B Loan Notes and S Loan Notes in issue. The Company has only Ordinary Shares currently in issue.

Uncertificated Shares

Changes have been made to reflect the Uncertificated Securities Regulations 2001 (the "2001 Regulations") and to clarify in more detail how certificated and uncertificated shares are to be dealt with in particular circumstances.

The New Articles provide that the Company shall not issue certificates in respect of uncertificated shares and empower the directors to implement any arrangements they may think fit in relation to the evidencing and transfer of uncertificated shares. The New Articles also provide for the conversion of certificated shares and uncertificated shares and vice versa in accordance with the 2001 Regulations.

Transfers of uncertificated shares are to be made in accordance with the 2001 Regulations and the rules of the relevant system whilst transfers of certificated shares will continue to require an instrument of transfer in writing.

Treasury Shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "2003 Regulations") came into force on 1 December 2003. The 2003 Regulations allow companies to hold up to 10 per cent. of each class of shares acquired by way of market purchase as treasury shares rather than having to cancel them. Such shares may be subsequently cancelled or sold for cash at a later date.

The Company may consider holding in treasury any of its shares acquired by way of market purchase pursuant to an authority granted by shareholders. The Current Articles have been amended in a number of places to take into account the possible existence of treasury shares and their rights.

Record date

The New Articles contain a provision enabling the Company or the Board to fix a record date by reference to which holders of shares or securities shall be entitled to the receipt of any dividend, distribution, allotment, issue, notice or circular.

Untraced Shareholders

The article which deals with the treatment of untraced shareholders is amended to clarify the situation in which the Company is able to sell the shares of an untraced shareholder after 12 years.

Appendix to Notice of Annual General Meeting

Electronic Communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website.

The New Articles allow proxies to be sent or supplied in electronic form and, where the Company gives an electronic address in a form of proxy, shareholders may send the appointment of proxy to that electronic address, subject to any conditions or limitations specified in the relevant notice of meeting.

The Company may ask each member for his or her consent to receive communications from the Company via its website. If the member does not respond to the request for consent within 28 days, the Company may take that as consent by the member to receive communications in this way. If the Company sends or supplies any notice, document or information to members by making it available on the Company's website, it must notify each member who has consented (or is deemed to have consented) to receive documents via the website, either by post or by email (if the member has specifically agreed to receive communications in electronic form), that the notice, document or information has been placed on the website. A member who has consented or is deemed to have consented to receive communications via the website can request a hard copy of any document at any time. Members can also revoke their consent to receive electronic communications at any time.

In relation to joint holders of shares, the New Articles provide that the agreement of the first-named holder on the register of members to accept notices, documents or information electronically or via a website shall be binding on the other joint holders. The New Articles would also permit the Company not to send or supply any notice, document or information to a member whose registered address is not in the United Kingdom unless that member gives a non-electronic address in the United Kingdom.

The New Articles also deal with notices, documents or information sent by the Company to a member, which have been returned undelivered on three consecutive occasions. The member will only be entitled to be sent further communications upon provision of a new postal or electronic address to the Company.

Meetings

Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular an extraordinary general meeting (now called a "general meeting") to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Proceedings at general meetings

The New Articles permit the Board and the Chairman to make arrangements to ensure the security and orderly conduct of a general meeting, including requiring those attending to produce evidence of identity, the searching of personal property and restricting items which can be taken into the meeting as well as refusing entry to a person who refuses to comply with such arrangements.

Form of resolution

The Current Articles contain a provision that, in certain circumstances, an extraordinary resolution is required. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been

Appendix to Notice of Annual General Meeting

altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed (but if they purport to exercise their rights in different ways, then the power is treated as not being exercised). The New Articles reflect all of these new provisions.

Under the Companies Act 2006 proxies are entitled to vote on a show of hands as well as a poll, and members may appoint a proxy to exercise all or any of their rights to attend, speak and vote at meetings.

New provisions are inserted in the New Articles dealing with the appointment of proxies and appointment by electronic means.

Destruction of Documents

The Current Articles have been amended to permit the Company to destroy all proxy appointments at the expiration of one year after the date of use, or, where not used, one month after the end of the meeting where no poll was demanded.

Directors

Retirement

The Current Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected or re-elected, such re-election being required at each AGM if he has attained the age of 70 years or more. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Financial Calendar

Key dates for 2008/2009 are set out below

26 August	Annual results announced
24 September	Annual General Meeting
October	Interim Management Statement
1 October	Final dividend payable
31 December	Company's half-year
February	Half-year results announced
March	Interim dividend payable
April	Interim Management Statement
30 June	Company's year-end

Shareholder Information

Annual General Meeting

This year's Annual General Meeting will be held at Gartmore House, 8 Fenchurch Place, London EC3M 4PB, on Wednesday, 24 September 2008 at 11 30 a m

Payment of Dividends

Cash dividends will be sent by cheque to the first-named shareholder on the Register at their registered address, together with a tax voucher. At shareholders' request, dividends may instead be paid direct into the shareholder's bank account through the Bankers' Automated Clearing System (BACS). This may be arranged by contacting the Company's Registrars on 0871-384 2428. Calls are charged at 8p per minute from a BT landline. Calls from other telephone networks may be higher and from mobiles will be considerably more.

Price and Performance Information

The Company's Ordinary shares are listed on the London Stock Exchange and the closing mid-market price is published in the Financial Times under 'Investment Companies'.

Real-time share price information is available on 09058 171 690. Calls are charged at 75p per minute from a BT landline. Calls from other telephone networks may be higher and from mobiles will be considerably more.

The Company's Net Asset Value is calculated daily and can be viewed on the London Stock Exchange website www.londonstockexchange.com. Further information can be obtained from Gartmore as follows:

Investor helpline	0800-289 336 (calls are free from a BT landline)
Internet address	www.gartmore.co.uk
e-mail address	helpline@gartmore.com

Internet

Information on the Company is available on the Gartmore website, www.gartmore.co.uk

The Company's discrete area on the site can be accessed via the "Fund range" menu or directly using www.gartmorefledglingtrust.co.uk or www.gartmorefledglingtrust.com

This information includes the latest annual and interim reports, fact sheets and corporate governance documents such as committee terms of reference that can be downloaded, together with access to the latest regulatory news announcements and net asset values.

Share Dealing

Investors wishing to purchase Ordinary shares in the Company, or sell all or part of their existing holdings, may do so through a stockbroker. Most banks also offer this service. See also page 60 for investing in Gartmore investment trusts.

Shareholder Information

Share Register Enquiries

The Company's Registrars, Equiniti Limited, maintain the share register. In the event of queries regarding your holding, please contact the Registrars on 0871-384 2428. Calls are charged at 8p per minute from a BT landline. Calls from other telephone networks may be higher and from mobiles will be considerably more. Alternatively, there is now a range of shareholder information available online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. Changes of name or address must be notified in writing to Equiniti Limited, Finance House, Orchard Brae, Edinburgh EH4 1WQ.

Gartmore SAVEit and Gartmore Investment ISAit Enquiries

Details of the Gartmore Savings Plan, SAVEit, and the tax-free Individual Savings Account, Gartmore Investment ISAit, are set out on page 60 of this Report. These offer individuals a simple and cost effective means of buying shares in the Company. Enquiries about SAVEit, ISAit should be directed to:

Investor helpline	- 0800-289 336 (calls are free from a BT landline)
Administration helpline	- 0870-601 6133
Administration fax	- 0870-888 3033
e-mail address	- helpline@gartmore.com

Factsheets

A Factsheets booklet, which contains statistics for the whole range of Gartmore managed investment trusts, is published regularly and is available on request from Gartmore Investment Limited, Gartmore House, 8 Fenchurch Place, London EC3M 4PB, or call free on 0800-289 336.

Capital Gains Tax

Under present legislation, the annual capital gains of private individuals in excess of £9,600 are subject to tax at a flat rate of 18%. Investment trust companies are able to switch investments without liability to capital gains tax subject to meeting the requirements of Section 842 of the Income and Corporation Taxes Act 1988 for the period in question.

The Association of Investment Companies

The Company is a member of The Association of Investment Companies, which produces monthly publications of detailed information on the majority of investment trusts. This information is also available on the Association's website, www.theaic.co.uk. The Association of Investment Companies can be contacted by telephone on 020-7282 5555, or by post to 9th floor, 24 Chiswell Street, London EC1Y 4YY.

Corporate Information

Administration

Manager and Company Secretary
Gartmore Investment Limited
Gartmore House
8 Fenchurch Place
London EC3M 4PB

Registrars and Transfer Office
Equiniti Limited
Finance House
Orchard Brae
Edinburgh EH4 1WQ

Independent Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Company Broker
Cenkos Securities plc
67-8 Tokenhouse Yard
London EC2R 7AS

Registered Office
Gartmore House
8 Fenchurch Place
London EC3M 4PB

Registered No. 2974633
England and Wales

Gartmore Investment Trusts

The aims of the investment trusts managed by Gartmore are as follows

Gartmore European Investment Trust plc

Long-term capital growth from investment in Continental Europe, with a focus on larger companies

Gartmore Fledgling Trust plc

Long-term growth in capital and dividends from investment predominantly in the constituents of the FTSE Fledgling (ex investment companies) Index. The investment policy combines indexation with an active overlay

Gartmore Global Trust PLC

Long-term capital growth from a concentrated portfolio of international equities. Although not a primary objective, the dividend is expected to rise over the longer term

Gartmore Growth Opportunities plc

Capital appreciation from investment primarily in the shares of quoted UK smaller companies

Gartmore Irish Growth Fund PLC

Long-term capital growth through investment in quoted companies, which are either incorporated in the Republic of Ireland or Northern Ireland or, if elsewhere, derive the majority of their turnover or profits from the Republic of Ireland or Northern Ireland

Gartmore Smaller Companies Trust plc

Long-term capital growth through investment in smaller UK listed companies and unlisted companies quoted on the Alternative Investment Market

How to Find Us

The entrance to Gartmore House is adjacent to Fenchurch Street Railway Station on Fenchurch Place

Investing in Gartmore Investment Trusts

Gartmore Investment Limited offers savings schemes that provide a simple and cost effective means of buying Gartmore investment trust shares. You can use these schemes to invest on a regular savings basis, for lump sum investments or a combination of each. Details of these products are listed below.

You can also buy Gartmore investment trust shares through a stockbroker, the Company's registrar or indirectly via a lawyer, accountant or other independent financial adviser. A number of banks also offer this service.

Before investing please read the Key Features Document, which is available on request and on the Gartmore website.

Gartmore SAVEit ("SAVEit") – a low-cost, easy to use and flexible savings scheme. Regular savings from £50 per month. Lump sum investments from £1,000.

SAVEit is the savings scheme for investment trusts managed by Gartmore. Any income can be reinvested or, alternatively, paid to your bank or building society account. There is a dealing fee on share purchases of just 1% and no annual* or exit fees. Moreover, you may switch from one Gartmore trust to another within the scheme at a cost of only 1% of the repurchase value. There is no maximum investment level.

Gartmore Investment ISAit ("ISAit") – a tax-efficient way to invest. Regular savings from £50 per month. Lump sum investments from £1,000.

ISAit is the Individual Savings Account (ISA) for investment trusts managed by Gartmore. An ISA is a tax-efficient savings account. Investments held within Gartmore Investment ISAit are not subject to capital gains tax. ISAit allows you to invest, via a Stocks and Shares ISA, up to a maximum of £7,200 per person each tax year. There is an annual fee of 0.5%* (plus VAT) and no initial charge. Switches from one Gartmore trust to another within the scheme are available at a cost of only 1% of the repurchase value.

* Please note that in addition to any scheme charges paid by savers the investment trust companies bear their own operating costs which include investment management fees (see website).

How to receive further information

Write to Gartmore Investor Services, Gartmore House, 8 Fenchurch Place, London EC3M 4PB. Call free 0800 289 336. E-mail helpline@gartmore.com. Internet www.gartmore.co.uk.

Telephone calls may be recorded for monitoring and training purposes.

Important Information

If you have any doubts as to whether these products are suitable for you and wish to obtain personal advice, please contact an Independent Financial Adviser. The value of investment trust shares and the income from them may go down as well as up and you may not get back your original investment. The past performance of investment trusts is not a guide to future performance. Funds investing in overseas securities are exposed to and can hold currencies other than sterling. As a result, exchange rate movements may cause the value of investments to decrease or increase. Emerging markets tend to be more volatile than more established stock markets and therefore your money is at greater risk. Other risk factors such as political and economic conditions should also be considered. Smaller companies are riskier and less liquid than larger companies which means their share price may be more volatile. Investment trusts can borrow money to make additional investments on top of shareholders' funds (gearing). If these investments fall in value, gearing will magnify the impact on performance. Particular share classes may also be structurally geared by other share classes that have earlier entitlement to the investment trust's assets up to a predetermined limit. If an investment trust incorporates a large amount of gearing, its value may be subject to sudden and large falls in value and you could get back nothing at all. Where investment trust companies are involved in corporate activity, this may change the risk profile of individual shares, as well as impacting on the portfolio strategy, capital structure and duration of the overall company. Gartmore's investment trusts are permitted to use derivative instruments with the intention of improving returns or reducing the fund's volatility, although this outcome is not guaranteed. Derivatives are financial instruments which derive their value from an underlying security, such as equities or bonds. A rigorous risk management process runs alongside our use of derivatives to ensure that funds do not take undue levels of risk. The value of current tax relief depends on individual circumstances. If you have doubts about your tax position you should seek professional advice. The level of yield may be subject to fluctuation and is not guaranteed. Some or all of the annual management fee may be currently charged to the capital of the company. Whilst this increases the yield, it will restrict the potential for capital growth. Investment trust shares may trade at a discount or a premium to the value of the investment trust's assets. Net Asset Value performance is not the same as share price performance and investors' returns may not equate to Net Asset Value performance. Where an investment trust holds a limited number of investments and one or more of those investments declines or is otherwise adversely affected, it may have a more profound effect on the investment trust's value than if a larger number of investments were held. If you choose to reinvest dividends to buy more shares in the same investment trust that paid the dividend, you should be aware that this will increase your investment risk exposure to the investment performance of that company. Investment trusts which specialise by investing in a particular region or market sector are more risky than those which hold a very broad spread of investments. ISA regulations have recently been reviewed by HM Treasury. However, they are still subject to Government legislation and as such their tax benefits and investment levels may be changed in the future.

Issued by Gartmore Investment Limited, which is authorised and regulated by the Financial Services Authority.

Glossary of Terms

Benchmark

The Company's benchmark is the FTSE Fledgling (ex investment companies) Index. Prior to 31 December 1996, the benchmark was the MicroCap Index. The FTSE Fledgling (ex investment companies) Index was established by the FTSE Actuaries UK Indices Committee as part of their range of indices measuring the performance of UK equities.

Beta

A measure of portfolio responsiveness to market movements. The benchmark index has a beta of 1. A beta of 1.05, for example, means that, if the benchmark rose by 20%, then 1.05 times this return (or 21%) would be expected (based on historical data) for the portfolio. Conversely, if the market fell by 20%, the portfolio would be expected to fall by 21%. An index-tracking portfolio should have a beta very close to 1.

Discount

The amount by which the middle market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

Dividend Yield

The annual dividend expressed as a percentage of the share price.

Indexation

Investment in a portfolio of shares and securities the characteristics of which broadly match those of an index.

Net Asset Value

Also described as Shareholders' Funds, Net Asset Value is the value of Total Assets less liabilities. Liabilities for this purpose include borrowings and prior charge securities as well as current liabilities.

Net Asset Value per share (NAV)

Net Asset Value divided by the number of shares in issue gives the Net Asset Value per share.

Premium

The amount by which the middle market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

Total Expense Ratio

The total expenses (excluding interest) incurred by the Company expressed as a percentage of average equity shareholders' funds on a monthly basis.

Price/Book Ratio

This ratio is the ratio of the market capitalisation of a company to its net assets after deducting total debt. This is a valuation measure and indicates how far the price of a company's shares is from its 'real' asset backing. This measure is often used to help value companies in the financial sector, or where asset values are important.

Price/Earnings Ratio

This ratio is calculated by dividing the mid-market price per share by the earnings per share. This ratio is a commonly used to measure the relative cheapness of companies.

Price/Sales Ratio

This ratio is the proportion of total market capitalisation plus net debt (total debt less current assets) to total revenue. The use of total market capitalisation plus net debt is to allow for the fact that different companies have different debt structures. The ratio's numerator reflects a measure of total capital to 'buy-out' a company at the current share price and to clear all debts. This is compared to the total revenue which would have been 'bought' by doing this. This is a useful valuation measure for non-financial companies, particularly where earnings are negative or at very depressed levels.

Rebalancing

Transactions in investments to re-align a portfolio with the index it is designed to track, or changes in the index itself to keep within its chosen criteria.

Tracking Error

A measure of how close to its benchmark the performance of a portfolio is likely to be. It is a useful summary statistic for measuring a portfolio's total risk against its benchmark index. In statistical terminology, the tracking error is the expected standard deviation of future portfolio returns against the index. By way of illustration, a tracking error of 2.5% indicates that in 2 out of every 3 years the portfolio's return would be expected to be within 2.5% of the index's return. A tracking error of 1% would indicate that the portfolio's performance is likely to be much closer to that of the index (within 1% in 2 out of 3 years).

Winding-up Date

The date specified in the Articles of Association for winding-up a company.

Gartmore Fledgling Trust plc

**Registered Office
Gartmore House
8 Fenchurch Place
London EC3M 4PB**

Telephone 020 7782 2000

Registered No 2974633 England and Wales

Summerhall 46251