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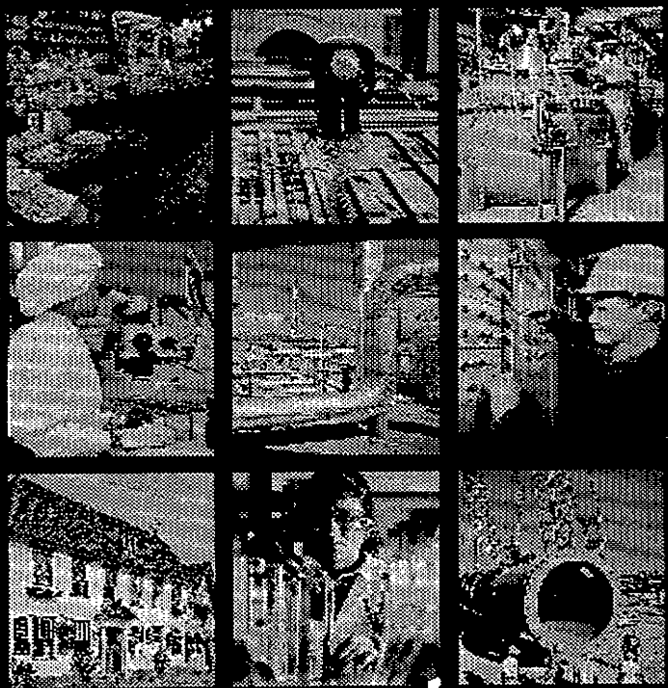
Gartmore

Gartmore Fledgling Index Trust plc



Report for the six months to 31st December 1998

2974633

INTERIM REPORT

The Company

Investment Objective

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

Investment Policy

The Managers follow a policy of indexation by investing in a portfolio of securities, the characteristics of which broadly match those of the Fledgling Index in terms of, inter alia, types of business activity, market capitalisation and yield. A substantial proportion of the Index is replicated.

Benchmark Index

The Company's benchmark is the FTSE Fledgling Index ex Investment Trusts. Prior to 31st December 1996 the benchmark was the MicroCap Index. The Fledgling Index was established by the FTSE Actuaries UK Indices Committee as part of their range of indices following UK equities.

The Fledgling Index consists of all UK companies which qualify for inclusion in the FTSE Actuaries Share Indices but are too small to be included in the FTSE All-Share Index. Requirements for inclusion in the Fledgling Index include a full listing on the London Stock Exchange and a liquidity test. The Fledgling Index thus excludes stocks traded on the Alternative Investment Market. The FTSE All-Share Index aims to represent approximately 98% to 99% of the capital value of qualifying UK companies with the Fledgling Index representing the balance.

At 31st December 1998, the Fledgling Index comprised 704 companies listed on the London Stock Exchange. The Index is re-balanced annually at 31st December, and on this date in 1998, represented the smallest 1.03% of the UK equity market by market capitalisation, and had a threshold maximum market capitalisation of £55 million.

The Fledgling Index has only a short performance history, from the start of 1995. In order to gauge the performance of this area of the market over the long term, a reasonable proxy to use is the MicroCap Index. The back history of the MicroCap Index, which represents the smallest one per cent of the UK equity market, is available from 1st January 1955 to 31st December 1996. This history has been combined in this report with that of the Fledgling Index subsequent to that date, so as to get an indication of the long term performance of the smallest stocks in the UK market.

Structure

The Company is an investment trust company whose capital comprises Ordinary shares and Warrants.

GARTMORE FLEDGLING INDEX TRUST plc

is managed by Gartmore Investment Limited.
Gartmore Investment Limited is regulated by IMRO and the Personal Investment Authority and is a member of the NatWest and Gartmore Marketing Group.

Highlights

The Company out-performed its benchmark by 1.2% over the six months to 31st December 1998

Smaller companies had a disappointing half year, under-performing larger companies

Fledgling companies look attractive with average net dividend yields close to the long term gilt yield and market capitalisation equal to book value for the index

Adverse Total Return was 30.36p per Ordinary share for the six months to 31st December 1998

Dividend per Ordinary share maintained at 0.40p

CHAIRMAN'S STATEMENT

This is the Interim Report of Gartmore Fledgling Index Trust plc for the six month period to 31st December 1998. The Company has again achieved its objective of broadly matching the capital performance of its benchmark index. During this period the Net Asset Value per Ordinary share fell by 19.7%.

The FTSE All-Share Index achieved a return of –1.4% over the half year and smaller companies generally lagged significantly. This disappointing result is a reflection of the slow-down in the manufacturing sector and caution over the outlook for the UK economy. It also reflects a global trend in which larger companies have out-performed smaller companies significantly over the past two years. This preference for more liquid companies has coincided with considerable merger activity in the very largest companies, increasing the importance of these companies in the well-known benchmark indices. In the UK BP-AMOCO, Vodafone-Airtouch and Zeneca-Astra are some recent examples.

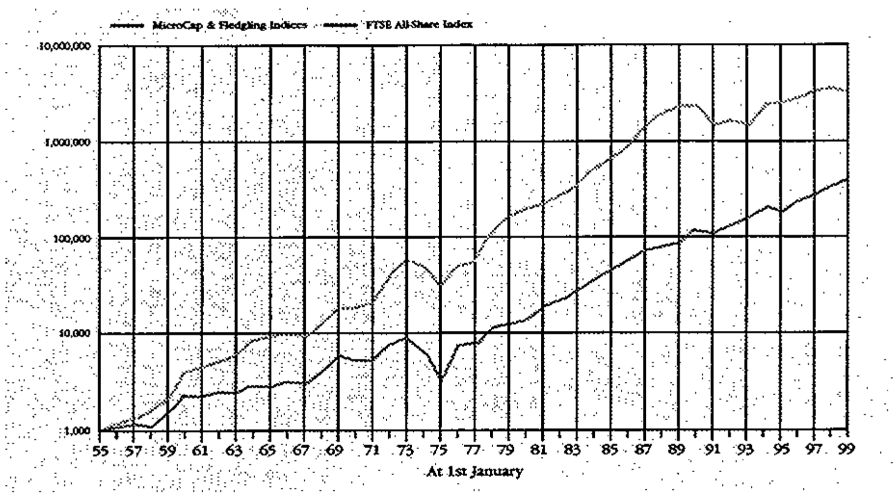
Ordinary Shares and Warrants Buy-Back
In view of the discount at which the Company's shares traded relative to Net Asset Value, the Board felt it appropriate to recommend the option to buy back Ordinary shares and Warrants in the market to seek to help narrow the discount and to enhance Net Asset Value performance.

At the Extraordinary General Meeting held on 22nd October 1998 shareholders authorised the cancellation of the Company's share premium account and the purchase by the Company of up to 14.9% of its Ordinary shares. The Court Order confirming the cancellation of the share premium account was made on 25th November 1998, following which the Company revoked its investment company status. The Company bought 400,000 of its own shares and 400,000 Warrants on 21st December 1998 at 79.5p and 8.0p each respectively.

Performance
Over the half year to December 1998 the Company out-performed its benchmark by 1.2% and was marginally ahead of benchmark for the full year. From the end of the first quarter of 1995, the first quarter end at which the Company was fully invested, the Company has matched closely the performance of its benchmark with an annualised performance of 4.3% compared to 4.4% for its benchmark. The table on page 5 details the quarterly performance.

Long Term Performance
Over the very long term, the Fledgling segment of the market has significantly out-performed the FTSE All-Share Index. Over the 44 year period from 1st January 1955 to 31st December 1998 the smallest capitalisation stocks in the market as represented by the MicroCap and Fledgling indices showed an annualised rate of return of 20.1% whilst the FTSE All-Share Index produced an annualised return of 14.4%. Retail price inflation was 6.4% per annum over the same period, implying a real return of 12.8% per annum for this area of the market.

Value of £1,000 invested on 1st January 1955 in FTSE Fledgling Index or the FTSE All-Share Index



Sources: MicroCap Index: Professors Elroy Dimson and Paul Marsh, London Business School
FTSE Fledgling Index: Datastream. All figures: gross income re-invested

Outlook

The UK economy has slowed considerably over the last twelve months and real Domestic Product is expected to be close to zero in 1999, down from around 2.5% in 1998. The manufacturing sector has been particularly weak with almost no growth in 1998 and a contraction of 1.5% to 2% expected in 1999. Companies have been reporting limited ability to raise the prices of their products and many sectors have seen prices decline. This has important implications for the profitability of companies, particularly in the industrial and commodity related areas.

Against this background interest rates have been cut from 7.5% in September 1998 to a current level of 6%, with further cuts expected. These cuts are complemented by a large number of interest rate cuts in Europe, North America and Asia in the past six months. These rate cuts should support economic growth over the next twelve to eighteen months and have been supportive of equity markets. Gilt yields have also been very supportive; thirty year yields have fallen from over 8% in 1996 to 4.1% at 31st December. At these levels the Fledgling Index net dividend yield equals the gilt yield implying that investors do not expect any dividend growth for thirty years. The dividend cover and balance sheet strength of Fledgling companies suggest that this is unduly pessimistic. Other measures also show excellent value in the Fledgling area; they are trading at book value and on a 75% discount to All-Share Index companies on a price to sales basis and on a 40% discount on a price to earnings basis.

Companies and management are recognising this value and this is reflected in the high level of bid activity and in the substantial buying by Directors of their own companies' shares. These are important points of support in the assessment of the Fledgling area. The future interest rate cuts expected in the next twelve months, low valuations and bid activity should provide support to the Fledgling area.

Jimmy West
Chairman
2ND FEBRUARY 1999

Investment Policy

An index-tracking approach has been adopted as the most practical way of obtaining exposure to the anticipated long-term outperformance of the Fledgling Index, as it offers a widely diversified portfolio and lower expected dealing costs.

Tracking Performance

The following table details the full tracking history of the Company since inception. The Company tracked its benchmark closely during 1998 under-performing by 0.1% over the year, but out-performing by 1.2% over the half year under review.

Period Covered	Gartmore Fledgling Index Trust Total Assets Capital Return %	Benchmark Capital Return** %	Relative Performance %
1995 Quarter 2	+3.8	+3.9	–0.1
Quarter 3	+6.7	+6.9	–0.2
Quarter 4**	+2.3	+2.2	+0.2
9 months	+13.3	+13.5	–0.2
1996 Quarter 1	+3.6	+3.7	–0.1
Quarter 2	+7.9	+7.6	+0.3
Quarter 3	+0.4	+0.7	–0.3
Quarter 4	–0.4	–0.4	(–)
Year	+11.8	+11.9	–0.1
1997 Quarter 1	+6.4	+6.6	–0.2
Quarter 2	–4.9	–5.4	+0.5
Quarter 3	+2.1	+2.7	–0.5
Quarter 4	–0.3	–0.4	+0.1
Year	+3.0	+3.1	–0.1
1998 Quarter 1	+10.3	+11.4	–0.9
Quarter 2	+1.7	+1.8	–0.1
Quarter 3	–20.7	–21.6	+1.1
Quarter 4***	+1.0	+0.9	+0.1
Year	–10.2	–10.3	+0.1
45 months to 31st December 1998* (Annualised)	+4.3	+4.4	–0.1

* From first quarter-end at which Company was fully invested. Relative performance figures shown are compound relatives and based on more decimal places than shown.

** MicroCap Index to 31st December 1996, FTSE Fledgling ex Investment Trusts thereafter. Performance in Quarter 4 1995 for the benchmark is the MicroCap Index performance adjusted by 0.5% to reflect a tradeable exit price for Unipalm which was taken over during the quarter.

*** Company performance in Quarter 4 1998 incorporates adjustment for Buy-Back of Ordinary Shares on 21st December 1998.

Portfolio Construction

(a) Summary Risk Statistics

The portfolio is widely diversified over the FTSE Fledgling area of the market with some 670 companies held. The following table summarises the risk characteristics of the portfolio. The key summary statistic is the tracking error of 0.9% against the Fledgling Index (ex Investment Trusts). This number estimates the typical range in performance around the index that might be expected in two out of three years. This level of predicted tracking error is a reasonable one given the illiquidity in the Fledgling area of the market. The fund has actually achieved a much lower tracking difference of 0.1% per annum since inception.

	Gartmore Fledgling Index Trust	FTSE Fledgling Index (ex Investment Trusts)	Comment
Number of Companies	676	704	Widely Diversified Portfolio
Tracking Error	0.9%	0.0%	Reasonable level
Beta	1.01	1.0	Broadly in-line

Source: BARRA

(b) Sector Weightings

The portfolio's sector positions are close to those of the benchmark as befits the index tracking approach. The table on page 11 shows the portfolio's weights against its benchmark index.

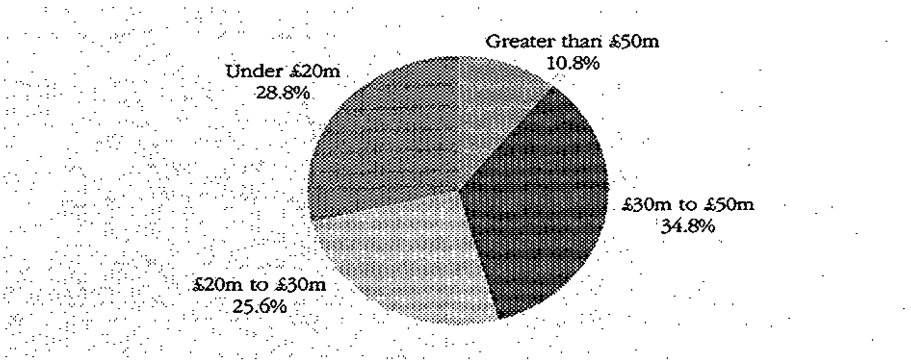
Characteristics of the Fledgling Index

The Fledgling Index has a number of differences in characteristics from the well-known larger company indices such as the FTSE All-Share or FTSE 100 indices. In particular it has a significantly different industry distribution and has different "style" biases. These "style" biases include a bias towards "cheaper" stocks and towards companies with a higher proportion of domestic UK earnings and somewhat lower returns on equity. These low valuations and the recovery potential for profits have led to very high levels of take-over activity at this end of the market with 18% of the portfolio being taken over during 1998.

(a) Distribution of the Fledgling Index 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 Index.

The chart below shows the distribution of the constituents of the Fledgling Index by market capitalisation as at 31st December 1998. The Fledgling Index is rebalanced annually at 31st December and, as at the end of 1998, had a threshold capitalisation of £55m. This, in turn, was the minimum threshold capitalisation for the FTSE All-Share and there is no overlap in the two indices' constituents.

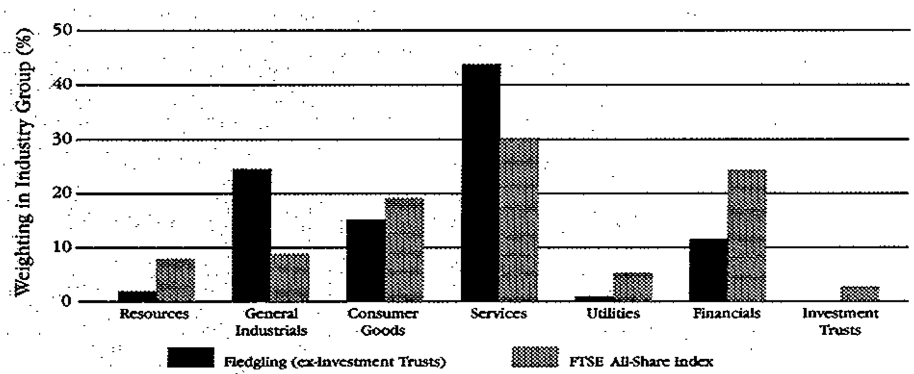


(b) Sector Distribution

The Fledgling Index has significant differences in sector weightings to that of the FTSE All-Share Index. In particular, it is overweight in General Industrials and Services sectors. It is underweight in Utilities, Financials and Resources sectors. The following table shows a detailed comparison:

Industry Group Weightings at 31st December 1998

of the FTSE Fledgling Index (ex Investment Trusts) and the FTSE All-Share Index



Source: BARRA, NatWest Securities.

(c) Valuation

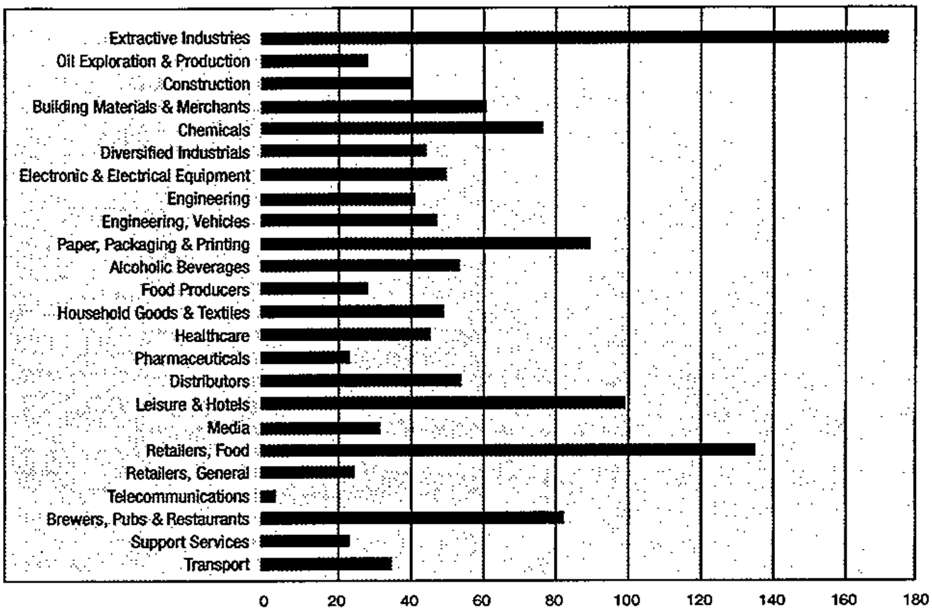
The constituents of the Fledgling Index are cheaply valued when compared with larger UK companies. Fledgling Index non-financial stocks are being priced at their book value, a 67% discount to those in the FTSE All-Share Index. Their dividend yield (on a net basis) at 4.1% is now only marginally below the gilt yield of 4.35%, an unusually cheap rating.

Valuation Measures At 31st December 1998	FTSE Fledgling Index (ex Investment Trusts)	FTSE All-Share Index	Relative
Price/Sales Ratio	0.34x	1.44x	0.24
Price/Book Value Ratio	1.0x	3.1x	0.33
Price/Earnings Ratio	11.8x	19.6x	0.60
Price/Cash Earnings Ratio	6.9x	12.4x	0.56
Dividend Yield (net)+	4.1%	2.3%	1.75

Source: Warburg Dillon Read. All figures are based on historic data at 31st December 1998. Earnings and cost earnings figures used are based on the full year forecasts for the past twelve months.
Price/Sales Ratio is for non-financials only. This ratio is calculated as Enterprise Value (market capitalisation plus net debt) to Sales.
+Net of ACT to reflect the 1997 budget changes.

These relatively cheap valuations are consistent across most sectors, as the chart on page 9 illustrates. It shows the price-sales ratio of each sector in the Resources, General Industrials, Consumer Goods and Services groupings relative to the respective FTSE All-Share Index sectors. Figures below 100 indicate sectors of the Fledgling Index which are relatively cheap, when compared against the respective FTSE All-Share Index sectors. Extractive Industries and Food Retailers are the only sectors shown to be relatively expensive. Leisure & Hotels is broadly similar between both indices.

Sector Price to Sales Relatives at 31st December 1998
of the FTSE Fledgling Index relative to the FTSE All-Share Index



Source: Warburg Dillon Read. Figures below 100 indicate sectors where the Fledgling sector is cheaper than the FTSE All-Share.

(d) Growth, Financing and Profitability

Growth:

The Managers expect earnings growth during 1999 to be in the 0-5% per annum range for the Fledgling Index, broadly in-line with that expected for FTSE All-Share Index companies. This is in contrast to Broker Analysts' estimates, which suggest 20-25% earnings growth for the Fledgling area. These forecasts are seen as over-optimistic given the cyclical slowdown in the UK economy and in the manufacturing sector in particular.

Dividend growth is expected to be at a similar level of about 0-5% per annum over the next two years.

Financing:

The table below shows that the average debt/equity ratio is lower for Fledgling stocks, suggesting that their balance sheets are stronger than those of larger companies. This is a reversal of the position from the early 1990's to the end of 1997. Gearing levels in large companies have risen as they have increased borrowings to buy back their shares and to finance takeovers. Smaller companies on the other hand, have been rebuilding their balance sheets from the early 1990's recession. Dividend cover is slightly higher for Fledgling companies, indicating a somewhat better ability to finance dividend increases and this provides comfort on companies' ability to pay their dividends and to sustain the high dividend yields comment upon above.

Characteristics at 31st December 1998	Debt / Equity Ratio %	Dividend Cover
Fledgling	34	2.3
FTSE All-Share	44	1.9

Source: Warburg Dillon Read. Dividend cover is only in respect of companies actually paying a dividend.

Profitability:
Fledgling companies have a strong domestic UK orientation, although they have been vulnerable to the strength in sterling over the past two to three years. Even after weakness in 1998, sterling is still about 25% higher against the Deustchmark than it was in early 1996. The average return on equity of Fledgling companies is lower than for larger companies, although it is on an improving trend from 9.4% at the end of 1997 to 13.4% at the end of 1998. While this increase confirms the recovery in profitability at this end of the market it also indicates that some measure of further recovery in profitability is still possible for smaller companies from here.

Characteristics at 31st December 1998	Overseas Profits as a Percentage of Total Profits %	Average Return on Equity %
Fledgling	32	13.4
FTSE All-Share	40	15.7

Source: Warburg Dillon Read.

(e) Take-over Activity

During the second half of 1998, 8% of the Company's portfolio (by value) was taken over. This rate represents three times the level of activity during 1995 and 1996, and was broadly similar to that of the first half of 1998. Almost one fifth of the portfolio was taken over in 1998, an exceptionally high figure.

	Take-over as Proportion of Fund %	Number of Take-over
1995	5.9	33
1996	5.7	30
1997	10.2	47
1998 H1	9.5	42
H2	8.0	41
Year	17.5	83

Source: Warburg Dillon Read.

Industry Sector Weightings of Trust v. Benchmark at 31 December 1998

Investment Sector	Gartmore Fledgling Index Trust plc (%)	Fledgling Index ex. Investment Trusts (%)	Difference (%)
Extractive Industries	0.5	0.5	0.0
Oil, Exploration & Production	1.8	1.8	0.0
Construction	3.8	4.0	–0.2
Building Materials	3.3	3.6	–0.3
Chemicals	1.7	1.7	0.0
Diversified Industrials	0.7	0.6	+0.1
Electronics & Electricals	4.1	4.3	–0.2
Engineering	6.4	6.6	–0.2
Engineering, Vehicles	0.8	1.0	–0.2
Printing, Paper & Packaging	2.6	2.9	–0.3
Alcoholic Beverages	0.2	0.1	+0.1
Food Producers	2.2	2.6	–0.4
Household Goods & Textiles	8.6	8.2	+0.4
Health Care	1.7	2.3	–0.6
Pharmaceuticals	1.8	2.3	–0.5
Distributors	6.7	6.7	0.0
Leisure & Hotels	3.4	4.1	–0.7
Media	5.3	5.7	–0.4
Retailers, Food	0.2	0.3	–0.1
Retailers, General	6.9	6.7	+0.2
Telecommunications	0.6	0.6	0.0
Brewers, Pubs & Restaurants	2.5	2.9	–0.4
Support Services	13.3	14.2	–0.9
Transport	2.3	2.6	–0.3
Water	0.9	1.1	–0.2
Insurance	2.2	2.2	0.0
Other Financials	2.9	3.0	–0.1
Property	6.7	7.4	–0.7
Cash*	5.9	–	+5.9

*58% of Cash hedged by FTSE 100 Futures

GARTMORE INVESTMENT LIMITED
2ND FEBRUARY 1999

FINANCIAL STATISTICS

	At 31st December 1998	At 30th June 1998*	Change %
CAPITAL			
Total Assets (£'000)	**44,240**	55,101**	–19.7
Total Assets ex Revenue (£'000)	**43,859**	54,745**	–19.9
FTSE Fledgling Index (ex Inv Trust)	**1152.4**	1456.1	–20.9
Net Assets (£'000)	**37,240**	48,101**	–22.6
Net Asset Value per Ordinary share	**105.9p**	136.8p**	–22.6
Mid-market Price per Ordinary share	**79.5p**	112.5p	–29.3
Net Asset Value per Ordinary share (assuming Warrants fully exercised)	**105.0p**	131.0p**	–19.8
Mid-market Price per Warrant	**8.50p**	27.5p	–69.1

*Accounting period extended to eighteen months.

**Adjusted to reflect 400,000 Ordinary shares and 400,000 Warrants being bought in for cancellation during the period.

	Six months to 31st December 1998	Six months to 31st December 1997
REVENUE		
Net Revenue for the period (£'000)	**167**	321
Return per Ordinary share	**0.47p**	0.90p
Interim dividend per Ordinary share	**0.40p**	0.40p
TOTAL RETURN		
Total Return per Ordinary share:		
Revenue	**0.47p**	0.90p
Capital	**(30.83)p**	2.48p
	(30.36)p	3.38p

Analysis of Net Assets and Shareholders' Funds

	Valuation at 30th June 1998 £'000	%	Net Transactions £'000	Appreciation/ (Depreciation) £'000	**Valuation at 31st December 1998 £'000**	**%**
INVESTMENTS						
UK equities:						
Listed	55,449	114.0	(1,151)	(11,190)	**43,108**	**115.8**
Unlisted	67	0.1	(242)	184	**9**	**–**
TOTAL INVESTMENTS	55,516	114.1	(1,393)	(11,006)	**43,117**	**115.8**
NET CURRENT ASSETS	112	0.2	–	1,011	**1,123***	**3.0**
TOTAL ASSETS	55,628	114.3	(1,393)	(9,995)	**44,240**	**118.8**
LOAN	(7,000)	(14.3)	–	–	**(7,000)**	**(18.8)**
NET ASSETS	48,628	100.0	(1,393)	(9,995)	**37,240**	**100.0**
ATTRIBUTABLE TO:						
EQUITY SHAREHOLDERS' FUNDS	48,628	100.0	(460)	(10,928)**	**37,240**	**100.0**

*Liquid assets at 31st December 1998 amounted to £1,210,000 (30th June 1998 £151,000).

**Comprises adverse total return of £10,787,000 less dividends paid and payable of £141,000.

Largest Investments
at 31st December 1998

Ranking	Company	Sector	Valuation £'000	Percentage of Total Assets
1	MSB International	Support Services	238	0.54
2	French Connection	Retailers, General	205	0.46
3	Walker Greenbank	Household Goods and Textiles	201	0.45
4	Microgen Holdings	Support Services	199	0.45
5	VEGA	Support Services	194	0.44
6	Television Corporation	Media	194	0.44
7	Ottakar's	Retail, General	190	0.43
8	Clubhaus	Leisure & Hotels	181	0.41
9	L Gardner	Engineering	181	0.41
10	Paladin Resources	Oil Exploration & Production	180	0.41
11	Holt (Joseph)	Breweries, Pubs & Restaurants	176	0.40
12	Wace	Paper, Packing & Printing	176	0.40
13	Dee Valley	Water	175	0.40
14	Ted Baker	Retail, General	174	0.39
15	Zergo Holdings	Support Services	172	0.39
16	Incepta	Media	170	0.38
17	Goldsmiths	Retailers, General	169	0.38
18	Booth (Henry) & Sons	Construction	168	0.38
19	Workplace Technology	Support Services	167	0.38
20	Dolphin Packaging	Paper, Packing & Printing	166	0.38
21	Time Products	Distributors	165	0.37
22	Sythner	Distributors	165	0.37
23	Quadrant Healthcare	Health Care	163	0.37
24	Autologic Holdings	Support Services	162	0.37
25	Avesco	Media	161	0.36
26	Ockham Holdings	Insurance	160	0.36
27	Sherwood	Support Services	159	0.36
28	Allied Carpets	Retailers, General	156	0.35
29	McKay Securities	Property	155	0.35
30	Phytopharm	Pharmaceuticals	154	0.35
31	Novara	Retailers, General	154	0.35
32	Jarvis Porter	Paper, Packing & Printing	154	0.35
33	New London Capital	Insurance	154	0.35
34	Warner Howard	Support Services	153	0.35
35	Reliance Security	Support Services	153	0.35
36	Quality Software	Support Services	152	0.34
37	Merchant Retail	Retailers, General	151	0.34
38	Sunderland	Leisure & Hotels	151	0.34
39	Telemetrix	Electronic & Electrical Equipment	148	0.33
40	M-R	Support Services	146	0.33
41	Oxford Molecular	Pharmaceuticals	146	0.33
42	Mastead Insurance	Insurance	145	0.33
43	AIT	Support Services	145	0.33
44	Dart	Transport	144	0.33
45	BWD Securities	Other Financial	144	0.33
46	Hemingway Properties	Property	142	0.32
47	Chime Communications	Media	141	0.32
48	Dana Petroleum	Oil Exploration & Production	141	0.32
49	UMECO	Engineering	140	0.32
50	Alumasc	Engineering	139	0.31
Fifty largest equity investments			**8,219**	**18.60**

The Total Assets, on which this table is based, amounted to £44,240,000 at 31st December 1998.

Statement of Total Return (Unaudited)

(Incorporating the Revenue Account) for the six months to 31st December 1998

	Revenue £'000	**Capital £'000**	**1998 Total £'000**	Revenue £'000	Capital £'000	1997 Total £'000
Realised gains on investments	**–**	**4,044**	**4,044**	–	2,875	2,875
Unrealised losses on investments	**–**	**(15,050)**	**(15,050)**	–	(1,993)	(1,993)
Income	**918**	**–**	**918**	1,060	–	1,060
Investment management fee	**(216)**	**–**	**(216)**	(231)	–	(231)
Other expenses	**(362)**	**(58)**	**(420)**	(368)	–	(368)
Net Return Before Taxation	**340**	**(11,064)**	**(10,724)**	461	882	1,343
Taxation on ordinary activities	**(173)**	**–**	**(173)**	(140)	–	(140)
Return on Ordinary Activities After Taxation	**167**	**(11,064)**	**(10,897)**	321	882	1,203
Gains on Warrants buy-back	**–**	**110**	**110**	–	–	–
	167	**(10,954)**	**(10,787)**	321	882	1,203
Dividend in respect of Equity shares	**(141)**	**–**	**(141)**	(142)	–	(142)
Transfer to Reserves	**26**	**(10,954)**	**(10,928)**	179	882	1,061
Return per Ordinary* Share:	**0.47p**	**(30.83)p**	**(30.36)p**	0.90p	2.48p	3.38p

Note
All revenue and capital items in the above statement derive from continuing operations.
* Return per Ordinary share is calculated on revenue return of £167,000 (1997 £321,000) and capital return of (£10,954,000) (1997 £882,000) for the period and the average of 35,535,920 (1997 35,559,200) Ordinary shares in issue.

Interim Dividend

The Directors have declared an interim dividend of 0.40p (1997 0.40p) per share on 35,160,030 (1997 35,560,030) Ordinary shares in respect of the year ending 30th June 1999 payable on 26th March 1999 to Shareholders on the Register on 26th February 1999.

Dividend Calendar

	Rate	Announced	XD Date	Record Date	Pay Date
Interim	0.40p	3.2.99	22.2.99	26.2.99	26.3.99
Final	—	August	September	September	October

Balance Sheet

	Notes	At 31st December 1998 £'000	At 30th June 1998 £'000
Fixed Assets			
Investments		**43,117**	55,516
Current Assets			
Debtors		**113**	402
Cash at bank		**1,260**	151
		1,373	553
Creditors: Amounts payable within one year		**250**	441
Net Current Assets		**1,123**	112
Total Assets Less Current Liabilities		**44,240**	55,628
Creditors: Amounts payable after one year		**7,000**	7,000
Net Assets		**37,240**	48,628
Capital and Reserves			
Called-up share capital	2	**8,790**	8,890
Share premium account	2	**–**	23,162
Capital redemption reserve	2	**100**	–
Other reserves:			
Special reserve	2	**22,786**	–
Realised capital reserve	2	**15,383**	11,229
Warrant reserve	2	**2,375**	2,517
Unrealised capital reserve	2	**(12,575)**	2,475
Revenue reserve	2	**381**	355
Equity Shareholders' Funds		**37,240**	48,628
Net Asset Value per Ordinary Share		**105.9p**	136.7p
Net Asset Value per Ordinary Share Assuming Warrants Exercised		**105.0p**	130.6p

J. G. West
Director

Approved by the Board on 2nd February 1999

The Notes on pages 17 and 18 form part of these Accounts

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below:

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the inclusion of the investments at market value.

The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' ('SORP').

Change in Presentation of the Accounts

The formation of the statement of total return has changed. The principal change is the inclusion of a separate column which shows the aggregate of return on both capital and revenue for each item.

Revenue

Revenue includes dividends receivable from investments marked ex-dividend on or before the balance sheet date. Franked dividends are shown inclusive of the tax credit.

Deposit interest, expenses and interest payable are accounted for on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

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

Investments

Investments are treated as fixed assets and are shown in the balance sheet at valuation. The difference between book-cost and valuation is shown under Unrealised Appreciation/(Depreciation) of Investments.

Investments listed in Great Britain are valued at middle market prices at the close of business on the balance sheet date. Gains or losses on the realisation of investments are taken to realised capital reserve in accordance with the Company's Articles of Association and are not distributable.

1. Accounting Policies *(continued)*

No provision for taxation is required in respect of any realised or unrealised appreciation of investments which arises as the Company expects to qualify as an investment trust for tax purposes.

Capital reserves

Gains and losses on the realisation of investments are credited or charged to Realised Capital Reserve. Increases and decreases in the valuation of investments held at the period-end are credited or charged to Unrealised Capital Reserve.

Advance Corporation Tax

Advance Corporation Tax on dividends paid and payable is not included as a liability in the balance sheet to the extent that UK franked dividends reflected in the accounts are available to relieve the liability. Any Advance Corporation Tax considered irrecoverable is written-off.

Warrants

The proceeds attributed to Warrants on issue are credited to warrant reserve pending exercise or expiry of the Warrants.

When warrants are exercised, the amounts previously recognised and credited to warrant reserve are included in the net proceeds of shares issued and are transferred to the realised capital reserve.

Winding-up

The Company has an initial life of ten years, subject to extension by ordinary resolution at the Annual General Meeting of the Company in 2005 (and at every fifth subsequent Annual General Meeting) to the effect that the Company continue as an investment trust. If such resolution is not passed and alternative proposals for the unitisation or other reconstruction of the Company are not approved, the Company will be wound up.

2. Changes in Share Capital and Reserves

	Share Capital £'000	Capital Redemption Reserve £'000	Special Reserve £'000	Share Premium £'000	Warrant Reserve £'000	Revenue Reserve £'000	Realised Capital Reserve £'000	Unrealised Capital Reserve £'000	Total £'000
At 1st July 1998	8,890	–	–	23,162	2,517	355	11,229	2,475	48,628
Share premium cancellation	–	–	23,162	(23,162)	–	–	–	–	–
Share buy-back	(100)	100	(318)	–	–	–	–	–	(318)
Warrant buy-back	–	–	–	–	–	–	(32)	–	(32)
Transfer of unrealised appreciation on investment sold	–	–	–	–	–	–	(2,667)	2,667	–
Transfer from Warrant reserve	–	–	–	–	(142)	–	142	–	–
Total return after taxation	–	–	(58)	–	–	167	6,711	(17,717)	(10,897)
Equity dividend	–	–	–	–	–	(141)	–	–	(141)
At 31st December 1998	8,790	100	22,786	–	2,375	381	15,383	(12,575)	37,240

During the period to 31st December 1998, the Company repurchased 400,000 of its own Ordinary shares at 79.5p per share and 400,000 Warrants at 8.0p per warrant. The buy-back was made from the special distributable reserve arising upon the cancellation of the share premium account. Legal and other costs amounting to £58,000 incurred in relation to the share premium cancellation procedure have been charged against the special reserve.

Directors

Jimmy West *(Chairman)*

John Hancox **James Kerr-Muir** **Christopher Poll** **Nigel Whittaker**

Managers and Secretaries

Gartmore Investment Limited, a subsidiary of Gartmore Investment Management plc (Gartmore), act as Managers and Secretaries to the Company. Gartmore is ultimately a subsidiary of National Westminster Bank Plc. At 31st December 1998, the Gartmore group had funds under management of over £49 billion.

The Company's portfolio is the responsibility of Gartmore's Quantitative Strategies Unit and is managed by Gary Smith.

Gartmore Investment Limited
Gartmore House
16-18 Monument Street
London EC3R 8AJ

Telephone: 0171-782 2000

Gartmore Investment Trust Savings Plan

Gartmore SAVE*it* and Gartmore PEP*it* are respectively the Savings Plan and Personal Equity Plan for the investment trusts managed by Gartmore. The plans provide a flexible, effective and accessible means of investing in the Company's shares. From 6th April 1999, tax-free saving will continue to be available through the new Gartmore Individual Savings Account for Gartmore managed investment trusts, ISA*it*. Investments can be made by lump sum, regular monthly savings or share exchange. After 5th April 1999, investors will still be able to switch existing Personal Equity Plans into PEP*it*.

Copies of the Accounts of the Company and details of Gartmore SAVE*it* and PEP*it* can be obtained from:

Investor Services Department
Gartmore Investment Limited
Gartmore House
P.O. Box 65
16-18 Monument Street
London EC3R 8QQ

Call free on: 0800-289 336
Telephone calls may be recorded

E-mail: helpline@gartmore.com
Internet: http://www.iii.co.uk/gartmore

GARTMORE FLEDGLING INDEX TRUST PLC
is a member of the Association of Investment Trust Companies

GLOSSARY OF TERMS

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%) is expected for the portfolio, (based on historical data). 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 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. Figures are quoted net of Advanced Corporation Tax to reflect the 1997 budget changes.

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

Net Asset Value Net assets divided by the number of shares in issue gives the net asset value per share.

Premium The amount by which the 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.

Price/Earnings Ratio This ratio is calculated by dividing the middle-market price per share by the earnings per share. This ratio is a commonly used measure of the relative "cheapness" of companies.

Price/Book Ratio The price to book ratio is the ratio of the market capitalisation of the company to its net assets (total assets minus total debt). This is a valuation measure and indicates how far the price of the 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/Sales Ratio The price to sales ratio is the ratio of the total market capitalisation plus net debt (total debt minus current assets) to total revenue. The use of market capitalisation plus debt is to allow for the fact that different companies have different debt structures. The top line of the ratio reflects a measure of total capital to "buy-out" the company at the current share price and to clear all debts. This is compared to the total revenue one would have 'bought' by doing this. This is a useful valuation measure for non financial companies, particularly when earnings are negative or at very depressed levels.

Re-balancing 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. 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). The tracking error is the most useful summary statistic for measuring a portfolio's total risk against its benchmark. In statistical terminology, the tracking error is the expected standard deviation of future portfolio returns against the index.

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

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