

Gartmore Fledgling Index Trust plc



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COMPANIES HOUSE 11/9/99



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Registered Office

Gartmore House
8 Fenchurch Place
London EC3M 4PH

Registered No. 2974633

England and Wales

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 Companies ("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 Companies.*

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.

Structure

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

*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 per cent to 99 per cent of the capital value of qualifying UK companies with the Fledgling Index representing the balance.

At 30th June 1999, the Fledgling Index comprised 633 companies listed on the London Stock Exchange. The Index is re-balanced annually at 31st December. On this date in 1998 it 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 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 1995 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.

HIGHLIGHTS



*The Company out-performed its benchmark by 6.1%
over the year to 30th June 1999*



*Following a period of under-performance
during 1998 smaller companies significantly
out-performed larger companies in
the first half of 1999*



*Fledgling companies look attractive on
most valuation bases*

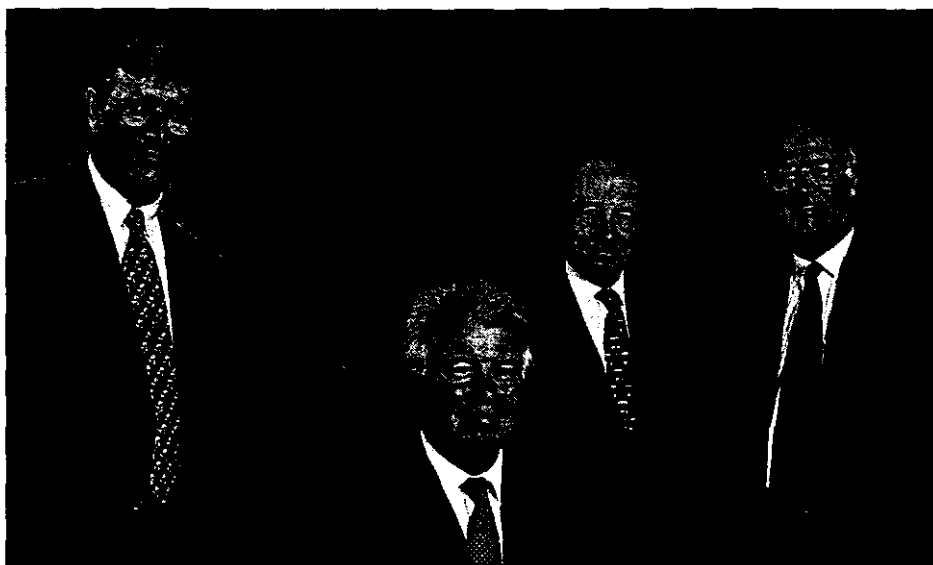


*Total Return was 4.52p per Ordinary share
for the year to 30th June 1999*



*Final dividend per Ordinary share
maintained at 1.00p*

THE BOARD OF DIRECTORS



Nigel Whittaker

Jimmy West

James Kerr-Muir

John Hancox

Jimmy West (Chairman)

Aged 52, is Chairman of Principal Healthcare Finance Limited, and a Director of a number of public and private companies, including British Assets Trust PLC, Candover Investments plc, Aberdeen New Dawn PLC, and Bensons Crisps plc. He was formerly Managing Director of Globe Investment Trust plc, prior to being Chief Executive of Lazard Asset Management Limited and a Managing Director of Lazard Brothers & Co. Limited.

James Kerr-Muir

Aged 58, is Chairman of Freeport Leisure Plc and The Outdoor Group Limited, and non-executive Director of a number of other companies including Senior plc. He was Group Finance Director of Kingfisher plc from 1992 to 1995. Previously he was with Tate & Lyle PLC, where he held the position of Managing Director UK Division from 1987 to 1991.

Christopher Poll

Aged 52, was chairman of Micropal Limited which he founded and financed in the mid-1980s. He entered the City in 1969 from university and became an investment analyst, manager and stockbroker, developing sophisticated dividend forecasting systems to aid investment managers.

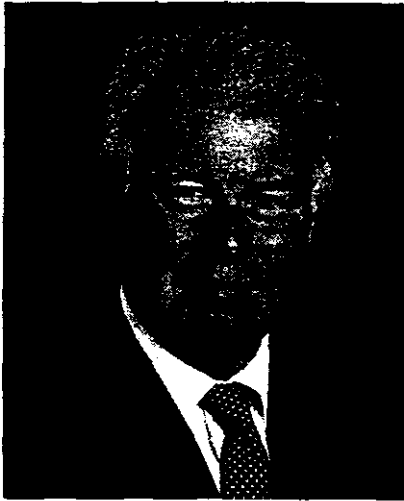
John Hancox

Aged 58, is non-executive Chairman of Johnson Service Group plc and Mid Kent Healthcare NHS Trust. He is also a non-executive Director of InterX plc, Martin Currie Enhanced Income Trust plc and a number of unlisted companies.

Nigel Whittaker

Aged 50, is Chairman of Card Clear plc, City Gourmets Holdings plc and M.T.I. Partners Limited and a non-executive Director of Wickes plc. He was an executive Director of Kingfisher Plc from 1983 to 1995.

CHAIRMAN'S STATEMENT

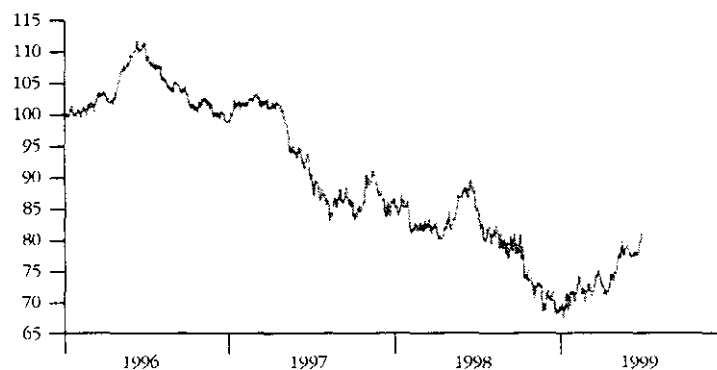


Jimmy West

This is the Annual Report of Gartmore Fledgling Index Trust plc for the twelve month period to 30th June 1999. The Company has out-performed the Fledgling Index by 6.1% over the year. This out-performance reflects the positive impact of the Ordinary share and Warrant buy-back programme as well as an out-performance from the underlying portfolio of 1.3%. The Company has out-performed its benchmark by 1.0% per annum since inception.

The Company's performance has been especially strong during the first half of 1999 with its total assets per share up 34.3%. Fledgling companies performed well against larger companies with the FTSE All-Share up only 11.7%. Valuations of Fledgling companies at the beginning of 1999 were outstandingly low as I flagged in my interim report. At that point the average net dividend yield of the Company's portfolio was in line with the long-dated gilt yield and Fledgling companies were trading on the stock market at their book value on average. The following chart illustrates the continued upside potential if the Fledgling Index retraced its under-performance over the past few years.

Performance of FTSE Fledgling Index Ex Investment Companies Relative to the FTSE All-Share



The Company has also performed well against competitor UK smaller company investment Trusts and is ranked 8th out of 33 investment trusts over both the first half of this year and over the 12 month period to end June. It out-performed the average smaller companies trust by 5.5% over the 12 month period.

Diluted NAV Performance versus AITC Smaller Companies Trusts

Period Covered	Gartmore Fledgling Index Trust %	AITC Smaller Cos Universe %	Ranking in Universe
6 months to 30th June 1999	33.6	27.6	8/33
12 months to 30th June 1999	7.4	1.9	8/33

Source: Consortium Investment Trust Service

CHAIRMAN'S STATEMENT

Ordinary Share and Warrant Buy-Back

In view of the discount at which the Company's shares traded relative to its Net Asset Value, the Board took the view that it was appropriate to take the powers to buy back Ordinary shares and Warrants in the market so as 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 and Warrants. 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. During the period to 30th June 1999, the Company has repurchased 5,125,000 of its own shares and 3,172,165 Warrants. These buy-backs have had a positive impact on the Company's discount and have enhanced the performance of the Company's Net Asset Value significantly.

Outlook

The UK economy has performed better than expected with signs of a rebound in the manufacturing sector and improving growth prospects on the services sector. Economic growth slowed in the latter part of 1998 and looks to have troughed in the first half of this year. Real Gross Domestic Product growth should accelerate from about 1% in 1999 to 2-2.5% in 2000. This acceleration has been under-pinned by the cuts in UK interest rates, from 7.5% last October to a current level of 5% and by a sharp recovery in overseas economies, particularly in Asia. Stronger household incomes in the UK, resulting from lower interest rates and lower unemployment, are likely to support consumption growth and there has been renewed vigour in the housing market, a key indicator of household spending. Sterling strength has remained a drag on growth although UK companies appear to be adapting to this stronger sterling environment.

Fledgling companies have rebounded strongly in the first half of this year reflecting the improving UK economic background and their attractive relative valuations. Despite this strong rally, they are still only valued at 1.3 times book value compared to a ratio of over 3 times book value for larger companies.

Fledgling companies and their managements are showing increasing confidence this year. Directors have been significant buyers of shares in their own companies in the first half of 1999 with some 260 companies seeing directors buying compared with 60 companies in which directors sold shares. This ratio of buyers to sellers is extremely positive and is better than for larger companies where the number of buyers and sellers are broadly in balance. Bid activity has been very strong and is running at an annualised rate of close to 20% of the Company's portfolio in the first half. This combination of low valuations, increasing director confidence and an accelerating economy is positive for this area of the market.



Jimmy West
Chairman

5th August 1999

MANAGERS' REVIEW



Gary Smith
Portfolio Manager
Gartmore Investment Limited

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.

Performance

The following tables show the full history of the Company since inception. The Company outperformed by 6.1% over the last 12 months with this out-performance arising largely from the positive impact of share buy-backs executed in the first half of this year. The Company has out-performed its benchmark by 1% per annum since inception. The first table below shows the performance of the Company's assets.

Period Covered	Gartmore Fledgling Index Trust Total Assets Per Share %	Benchmark Capital Return** %	Relative Performance %
1995 9 months	+13.3	+13.5	-0.2
1996**	+11.8	+11.9	-0.1
1997	+3.0	+3.1	-0.1
1998	-9.9	-10.3	+0.4
1999 (six months)	+34.3	+28.5	+4.5
12 months to 30th June 1999	+7.9	+1.7	+6.1
4 1/4 Years to 30th June 1999* (Annualised)	+11.3	+10.2	+1.0

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

** MicroCap Index to 31st December 1996. FTSE Fledgling ex Investment Companies thereafter. Performance in Quarter 4 1996 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.

The following table shows the Company's performance after adjusting for the positive impact of the share buy-backs. After this adjustment the portfolio showed an out-performance of 1.3% over the twelve month period.

Period Covered	Gartmore Fledgling Index Trust Total Assets Per Share Adjusted for Buy-Backs %	Benchmark Capital Return %	Relative Performance %
1998 (second half)	-19.9	-20.9	+1.3
1999 (six months)	+28.6	+28.5	+0.1
12 months to 30th June 1999	+3.0	+1.7	+1.3

Company performance has been adjusted since Quarter 4 1998 to allow for five repurchases of Ordinary Shares between 21st December 1998 and 10th June 1999.

MANAGERS' REVIEW

Portfolio Construction

(a) Summary Risk Statistics

The portfolio is widely diversified across the FTSE Fledgling area of the market with some 575 companies held. The following table summarises the risk characteristics of the portfolio. The key summary risk statistic is the tracking error of 0.9% against the Fledgling Index. 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 reasonable given the illiquidity in the Fledgling area of the market.

	Gartmore Fledgling Index Trust	FTSE Fledgling Index (ex Investment Companies)	Comment
Number of Companies	575	633	Widely Diversified Portfolio
Tracking Error*	0.9%	0.0%	Reasonable level
Beta*	1.00	1.00	In-line

*See glossary for explanation of terms
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 14 shows the portfolio's weightings against its benchmark index. The new FTSE industry definitions have been used in this table.

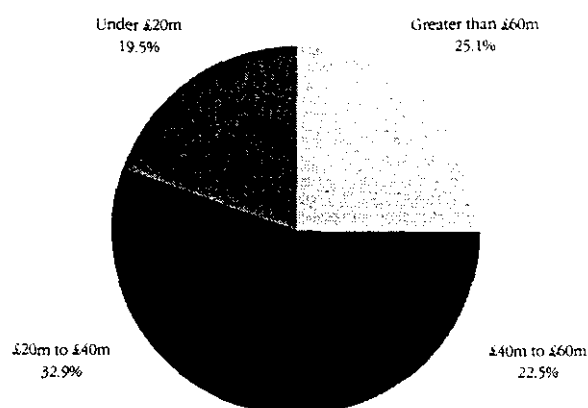
Characteristics of the Fledgling Index

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 profitability recovery potential have led to very high levels of take-over activity at this end of the market with about 18% of the portfolio being taken over during the year to 30th June 1999.

(a) Distribution of the Fledgling Index by Market Capitalisation

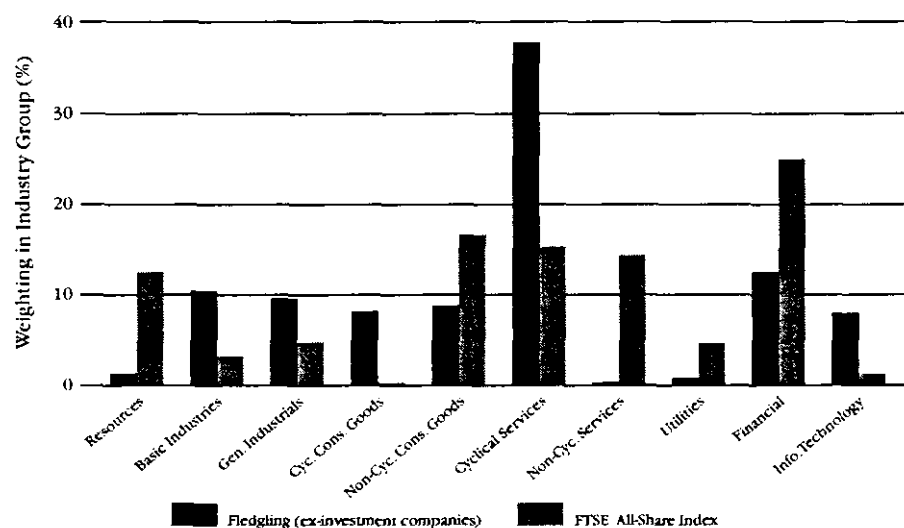
The Fledgling Index represents the smallest listed companies on the London Stock Exchange that are not included in the FTSE All-Share.

The chart below shows the distribution of the constituents of the Fledgling Index by market capitalisation as at 30th June 1999. 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. There is no overlap in the two indices' constituents. As at the end of June about one quarter of the index was capitalised over £60 million reflecting strong first half performance.



(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 Cyclical Services, Industrials and Information Technology sectors and is underweight in Non-Cyclical Consumer Goods and Services, Utilities, and Financials. It is interesting to note the near 10% weighting in Technology companies, well above the FTSE All-Share. The following table shows the detailed comparison:



Source: BARRA, NatWest Securities.

(c) Valuation

The constituents of the Fledgling Index are cheaply valued when compared with larger UK companies. Fledgling Index stocks are being priced at 1.3 times their book value on average compared to larger companies on over 3 times book value. All other valuation comparisons show similarly attractive comparisons.

Valuation Measures at 30th June 1999

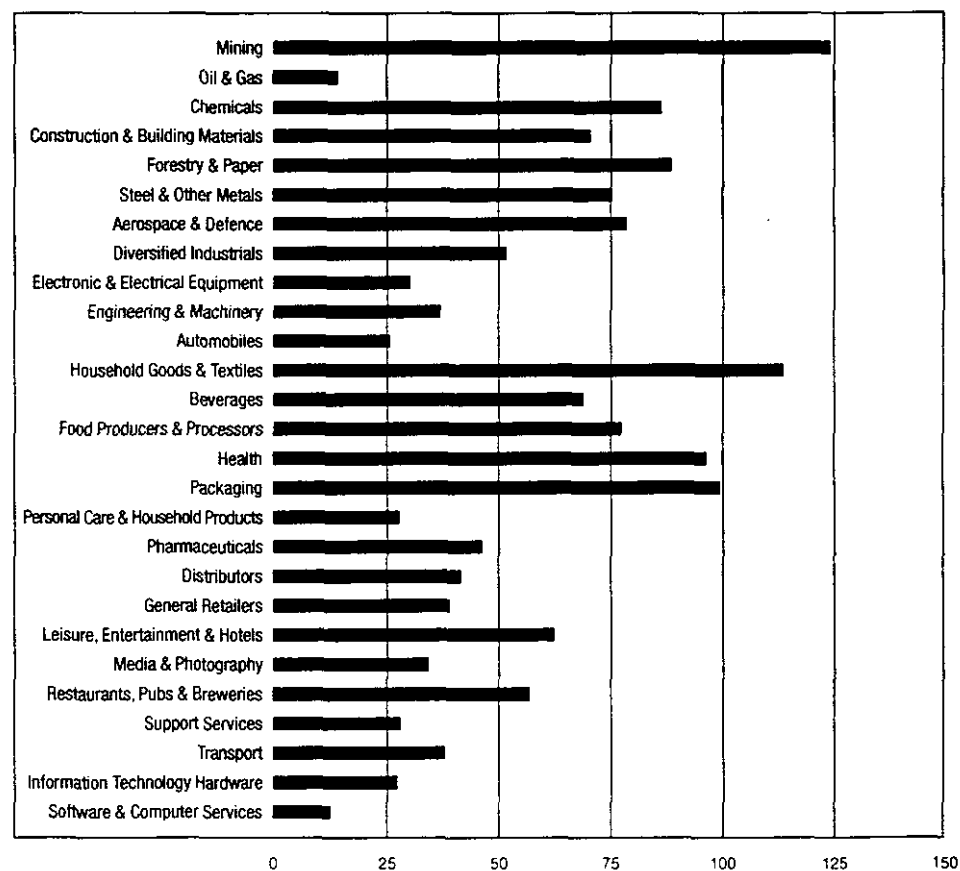
At 30th June 1999	FTSE Fledgling Index (ex Investment Companies)	FTSE Actuaries All-Share Index	Relative
Price/Sales Ratio	0.39x	1.80x	0.22
Price/Book Value Ratio	1.3x	3.2x	0.39
Price/Earnings Ratio			
Historic	17.3x	22.8x	0.76
One Year Forecast	12.4x	20.9x	0.59
Price/Cash Earnings Ratio	9.6x	14.4x	0.67
Dividend Yield (net)*	3.2%	2.3%	1.39

Source: Warburg Dillon Read. All figures are based on data at 30th June 1999.

Price/Sales Ratio is for non financials only. This ratio is calculated as Enterprise Value (market capitalisation plus net debt) to Sales.

These relatively cheap valuations are consistent across most sectors, as the following chart illustrates using the Price-Sales valuation basis

Sector Price-Sales Relative at 30th June 1999 of the 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.

MANAGERS' REVIEW

The chart shows the price-to-sales ratio of all non-Financial sectors 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. Mining and Household Goods & Textiles are the only sectors shown to be relatively expensive.

(d) Growth, Financing and Profitability

Growth:

The Managers' expect average earnings growth to be in the 5 to 10% range for Fledgling companies in 1999, broadly in-line with that of larger companies. Interest rate cuts since October 1998 should boost growth prospects in 2000, particularly for smaller companies, with their greater UK exposure.

Dividend growth is expected to be broadly in-line with earnings growth.

Financing:

The table below shows that the average debt/equity ratio of Fledgling stocks is lower than that of larger companies, which implies that their balance sheets are stronger than those of larger companies. This is a reversal of the position over the 1990s 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 whereas smaller companies have been rebuilding their balance sheets after the recession in the early 1990s. Dividend cover is slightly higher for Fledgling companies, indicating a somewhat better ability to finance dividend increases. This provides comfort on companies' ability to pay their dividends and to sustain the higher dividend yields shown in the table on page 10.

Characteristics at 30th June 1999	Debt/Equity Ratio %	Dividend Cover %
Fledgling	32	2.4x
FTSE All-Share	42	1.9x

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

Profitability:

Fledgling companies have a more domestic UK orientation than larger companies with only about 14% of profits originating abroad. Average returns on equity are lower than the FTSE All-Share but have recovered substantially from levels two years ago. The lower profitability levels indicate the continued scope for profit recovery.

Characteristics at 30th June 1999	Overseas Profits as a Percentage of Total Profits %	Average Return on Equity %
Fledgling	14	13.6
FTSE All-Share	42	15.6

Source: Warburg Dillon Read

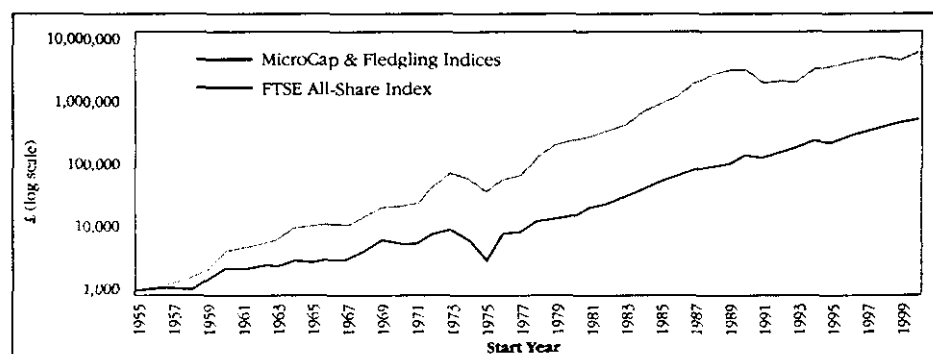
(e) Take-over Activity

Take-overs have been continuing at exceptional levels in the past 12 months. In the first half of this year close to 10% of the portfolio by value was taken over and this high level has continued into the second half. Corporates and venture capitalists are taking advantage of the low valuations and growth potential in the Fledgling area.

	Take-overs as Proportion of Fund %	Number of Take-overs %
1995	5.9	33
1996	5.7	30
1997	10.2	47
1998	17.5	83
1999 (six months)	9.3	43

Longer Term Performance

Over the very long term, the Fledgling segment of the market has significantly out-performed the FTSE All-Share Index. Over the 44½ year period from 1st January 1955 to 30th June 1999 the smallest capitalisation stocks in the market as represented by the MicroCap and Fledgling indices showed an annualised rate of return of 20.5% whilst the FTSE All-Share Index produced an annualised rate of return of 14.5%. Retail price inflation was 6.4% per annum over the same period, implying a real return of 13.3% per annum for this area of the market.



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

GARTMORE INVESTMENT LIMITED

5th August 1999

PRINCIPAL INVESTMENTS

at 30th June 1999

Company	Sector	Valuation of Company's Portfolio £'000	Percentage of Total Assets %
Baltimore Technology	Software & Computer Services	598	1.2
French Connection	General Retailers	403	0.8
Incepta	Media & Photography	399	0.8
Ockham Holdings	Insurance	368	0.7
VEGA	Support Services	352	0.7
Autologic Holdings	Support Services	350	0.7
Spring Ram	Construction & Building Materials	342	0.7
Ted Baker	General Retailers	308	0.6
Topps Tiles	General Retailers	290	0.6
Telemetrix	Electronic & Electrical Equipment	282	0.5
Brands Hatch	Leisure, Entertainment & Hotels	274	0.5
Torex	Software & Computer Services	266	0.5
Chime Communications	Media	263	0.5
Microgen Holdings	Support Services	262	0.5
Charles Stanley	Speciality & Other Finance	261	0.5
IMS	Media & Photography	250	0.5
Savills	Real Estate	247	0.5
WT Foods	Food Producers & Processors	245	0.5
Hughes (T.J.)	General Retailers	243	0.5
Columbus	Media & Photography	237	0.5
John Davis Sports	General Retailers	230	0.5
Booth (Henry) & Sons	Construction & Building Materials	229	0.5
L Gardner	Engineering & Machinery	228	0.5
Television Corporation	Media & Photography	227	0.4
Country Gardens	General Retailers	227	0.4
ITE	Media & Photography	225	0.4
Clubhaus	Leisure, Entertainment & Hotels	220	0.4
AIT	Software & Computer Services	219	0.4
Quality Software	Software & Computer Services	219	0.4
Bandt	Construction & Building Materials	218	0.4
European Sales Finance	Speciality & Other Finance	217	0.4
Sythner	Distributors	217	0.4
Hemingway Properties	Real Estate	214	0.4
Phytopharm	Pharmaceuticals	209	0.4
Alexandra	Household Goods & Textiles	208	0.4
Time Products	Distributors	208	0.4
Holt (Joseph)	Restaurants, Pubs & Breweries	207	0.4
McKay Securities	Real Estate	207	0.4
Dolphin Packaging	Packaging	205	0.4
Baldwins Industrial Services	Support Services	204	0.4
Hicking Pentecost	Household Goods & Textiles	204	0.4
Applied Holographics	Support Services	202	0.4
BWD Securities	Speciality & Other Finance	201	0.4
Royal Doulton	Household Goods & Textiles	200	0.4
WSP	Support Services	199	0.4
UMECO	Distributors	199	0.4
Eldridge & Pope & Company	Restaurants, Pubs & Breweries	197	0.4
Novara	General Retailers	197	0.4
Merchant Retail	General Retailers	197	0.4
Dana Petroleum	Oil & Gas	196	0.4
Fifty largest investments		12,570	24.6

The Total Assets, on which this table is based, amounted to £51,087,000 at 30th June 1999.

SECTOR CLASSIFICATION AND WEIGHTING
at 30th June 1999

Sector	Weighting of Company's Portfolio %	FTSE Fledgling Index (Ex Investment Companies) %	Difference %
Resources	1.9	2.1	-0.2
Mining	0.5	0.6	-0.1
Oil & Gas	1.4	1.5	-0.1
Basic Industries	10.7	10.6	+0.1
Chemicals	1.8	1.7	+0.1
Construction & Building Materials	8.2	8.0	+0.2
Forestry & Paper	0.2	0.3	-0.1
Steel & Other Metals	0.5	0.6	-0.1
General Industrials	9.3	9.8	-0.5
Aerospace & Defence	0.6	0.8	-0.2
Diversified Industrials	0.7	0.5	+0.2
Electronic & Electrical Equipment	3.5	3.8	-0.3
Engineering & Machinery	4.5	4.7	-0.2
Cyclical Consumer Goods	8.1	8.1	0.0
Automobiles	0.6	0.7	-0.1
Household Goods & Textiles	7.5	7.4	+0.1
Non-Cyclical Consumer Goods	7.9	8.9	-1.0
Beverages	0.1	0.1	0.0
Food Producers & Processors	2.6	2.9	-0.3
Health	1.5	1.9	-0.4
Packaging	1.1	1.0	+0.1
Personal Care & Household Products	0.1	0.2	-0.1
Pharmaceuticals	2.5	2.8	-0.3
Cyclical Services	37.2	37.8	-0.6
Distributors	6.1	6.0	+0.1
General Retailers	8.3	7.9	+0.4
Leisure, Entertainment & Hotels	3.3	4.2	-0.9
Media & Photography	6.5	6.9	-0.4
Restaurants, Pubs & Breweries	3.2	3.3	-0.1
Support Services	7.3	6.9	+0.4
Transport	2.5	2.6	-0.1
Non-Cyclical Services	0.5	0.6	-0.1
Food & Drug Retailers	0.2	0.2	0.0
Telecommunication Services	0.3	0.4	-0.1
Utilities	0.9	1.0	-0.1
Water	0.9	1.0	-0.1
Financials	11.9	12.6	-0.7
Insurance	1.7	1.7	0.0
Real Estate	7.2	7.8	-0.6
Speciality & Other Finance	3.0	3.1	-0.1
Information Technology	8.3	8.5	-0.2
Information Technology Hardware	1.3	0.6	+0.7
Software & Computer Services	7.0	7.9	-0.9
Total Investments	96.7	100.0	-3.3
Liquidity	3.3	-	+3.3
	100.0	100.0	-

The Total Assets, on which this table is based, amounted to £51,087,000 at 30th June 1999.

FINANCIAL STATISTICS

	At 30th June 1999	At 30th June 1998	Change %
Capital			
Total Assets (£'000)	51,087	55,628	-8.2
Total Assets ex Revenue (£'000)	50,657	55,273	-8.4
FTSE Fledgling Index (ex Inv Companies)	1480.4	1456.1	+1.7
Net Assets (£'000)	44,087	48,628	-9.3
Net Assets ex Revenue (£'000)	43,657	48,273	-9.6
Net Asset Value per Ordinary share	144.9p	136.7p	+6.0
Mid-market Price per Ordinary share	108.0p	112.5p	-4.0
Net Asset Value per Ordinary share (diluted)	143.5p	133.8p	+7.2
Mid-market Price per Warrant	17.5p	27.5p	-36.4
	Year to 30th June 1999	Period to 30th June 1998*	
Revenue			
Net Revenue after taxation (£'000)	520	791	
Revenue return per Ordinary share	1.57p	2.22p	
Dividends per Ordinary share	1.40p	1.80p	
	Year to 30th June 1999	Period to 30th June 1998*	
Total Return			
Total return per Ordinary share:			
Revenue	1.57p	2.22p	
Capital	2.95p	20.86p	
	<u>4.52p</u>	<u>23.08p</u>	

*Accounting period extended to eighteen months

DIVIDEND CALENDAR

Year ended	Rate	Announced	XD Date	Record Date	Pay Date
30th June 1999					
Interim	0.40p	3.2.99	22.2.99	26.2.99	26.3.99
Proposed final	1.00p	5.8.99	16.8.99	20.8.99	22.10.99

ANALYSIS OF NET ASSETS AND SHAREHOLDERS' FUNDS

	Valuation at 30th June 1998		Net Transactions	Appreciation/ (Depreciation)	Valuation at 30th June 1999	
	£'000	%	£'000	£'000	£'000	%
INVESTMENTS						
UK equities:						
Listed	55,449	114.0	(6,172)	21	49,298	111.8
Unlisted	67	0.1	(242)	175	—	—
TOTAL INVESTMENTS	55,516	114.1	(6,414)	196	49,298	111.8
NET CURRENT ASSETS	112	0.2	—	1,677	1,789*	4.1
TOTAL ASSETS	55,628	114.3	(6,414)	1,873	51,087	115.9
 FIXED LOAN	 (7,000)	 (14.3)	 —	 —	 (7,000)	 (15.9)
 NET ASSETS	 48,628	 100.0	 (6,414)	 1,873	 44,087	 100.0
ATTRIBUTABLE TO ORDINARY SHARES	48,628	100.0	(5,589)	1,048**	44,087	100.0

* Liquid assets at 30th June 1999 amounted to £1,653,000 (30th June 1998 £151,000)

** Comprises total return of £1,493,000 less dividends paid and payable of £445,000

HISTORICAL RECORD

	Total Assets £'000	Net Asset Value per Ordinary share p	Middle-Market Price per Ordinary share p	Warrant p
20th December 1994†	34,517	97.2	91.0	35.0
31st December 1995	36,530	102.9	94.0	28.0
31st December 1996	48,060	115.5	100.0	19.0
31st December 1997	49,758	120.2	97.5	16.5
30th June 1998††	55,628	136.7	112.5	27.5
30th June 1999	51,087	144.9	108.0	17.5

† At the commencement of business on 20th December 1994

†† Accounting period extended to eighteen months

REPORT OF THE DIRECTORS

The Directors submit their Report and the Accounts for the year ended 30th June 1999.

Business and Status

The Company is an investment trust company and a member of the Association of Investment Trust Companies. It is registered as a public limited company and was an investment company as defined by Section 266 of the Companies Act 1985 until 18th December 1998, when the registration was revoked to allow the Company to purchase its own shares by using the new reserve which was created on cancellation of the Company's share premium account.

The Company has been approved as an investment trust by the Inland Revenue for all accounting periods up to 30th June 1998. Since that date, the Company has directed its affairs so as to be able to continue to qualify for approval as an investment trust.

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

Revenue and Dividends

Net revenue after taxation for the year amounted to £520,000, compared with £791,000 for the eighteen month period ended 30th June 1998. The Directors recommend a final dividend of 1.00p per Ordinary share payable on 22nd October 1999 to Shareholders on the Register on 20th August 1999. This dividend, together with the interim dividend of 0.40p per share already paid, makes a total for the year of 1.40p per Ordinary share.

The dividends on the Ordinary shares cost £445,000, leaving the sum of £75,000 to be transferred to Revenue reserve.

Total Assets

At 30th June 1999, the value of Total Assets, less Current Liabilities, amounted to £51,087,000, compared with £55,628,000 at 30th June 1998.

Directors

The Directors of the Company, all of whom are non-executive, are shown on page 4. Mr. Hancox and Mr. Whittaker, were appointed as Directors in August 1998, Mr Kerr-Muir and Mr Poll, were re-elected as Directors at the Annual General Meeting held on 7th July 1999.

The Directors held the following beneficial interests in the Ordinary shares and Warrants of the Company at 1st July 1998 and at 30th June 1999. Since 30th June 1999 there have been no changes.

	30th June 1999		1st July 1998	
	Ordinary shares	Warrants	Ordinary shares	Warrants
J P D Hancox	20,000	—	—	—
J G West	15,000	3,000	15,000	3,000
J R Kerr-Muir	15,000	1,000	15,000	1,000
C G Poll	15,000	3,000	15,000	3,000

No Director has a contract of service with the Company. The Directors are covered under a policy of directors' liability insurance arranged by the Company at its own expense. There were no contracts or arrangements 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

Substantial Shareholders

At 5th August 1999, the Company had been notified under Section 198 of the Companies Act 1985 of the following interests of 3% or more of the Company's Ordinary shares, having unrestricted voting rights:-

	Number of shares	Percentage of Ordinary Shares	
<i>Philips & Drew Limited</i>			
Philips & Drew Life Limited	4,440,071	14.6%	17.3
Philips & Drew Fund Management Limited	816,629	2.7%	
<i>United Friendly Asset Management Limited</i>			11.2
United Friendly Insurance Group	2,914,125	9.6%	
United Friendly Staff Pension Scheme	484,875	1.6%	
<i>Teachers Assurance Group</i>			9.4
Teachers Assurance Company Limited	1,000,000	3.3%	
Teachers Provident Society	1,000,000	3.3%	
Teachers Assurance Company Capital Bond	850,000	2.8%	
NatWest Group	2,177,212		7.2
Royal London Asset Management Limited	2,000,000		6.6
Britannia Life Assurance	1,975,000		6.5
British Aerospace Pension Fund	1,500,000		4.9
Scottish Mutual Assurance	1,500,000		4.9
Philip J. Milton (on behalf of clients)	1,178,962		3.9

Management and Custody

The Company's investments are managed by Gartmore Investment Limited under a contract providing for one year's notice of termination on either side.

The management fee is calculated at the rate of 0.8% per annum on the value of the Company's Total Assets, less Current Liabilities, payable at the end of each calendar month.

Since 24th August 1998, the Bank of New York has provided custodian services to the Company under the terms of a custody agreement. Prior to this date, custodian services were provided by Gartmore Money Management Limited, a company related to Gartmore Investment Limited.

REPORT OF THE DIRECTORS

Year 2000

Gartmore Investment Limited, which provides investment management, accounting, administrative and company secretarial services to the Company, has instigated a programme to assess the consequences of the Year 2000 date change. Gartmore's strategy is to validate that its computer systems achieve Year 2000 conformity (as defined by the British Standards Institute in its paper DISC PD2000-1) and to request both its suppliers and the Company's suppliers, to ensure that their computer systems achieve the same or an equivalent standard. Costs relating to the Year 2000 project will be borne by Gartmore.

Corporate Governance

Arrangements have been put in place by the Board which it believes are appropriate to an investment trust company and enable the Company, to apply the Principles of Good Corporate Governance and comply with the provisions of the Combined Code of Best Practice (the Combined Code) as required by the London Stock Exchange Listing Rules. In accordance with Listing Rule 12.43A, details of how the Principles in Section 1 of the Combined Code have been applied are set out below.

All the Directors are wholly independent of the Managers, Gartmore Investment Limited. There is a formal procedure for the nomination of new Directors to the Board. All Directors are required to submit themselves for re-election every three years in accordance with the Company's Articles of Association. The Board meets regularly throughout the year and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

The Board has established an Audit Committee with specific terms of reference. The Audit Committee has formal arrangements for considering financial reporting and internal financial control matters as detailed below, and for maintaining an appropriate relationship with the Company's Auditors.

Details of Directors' remuneration is set out on page 28. There is a formal procedure for fixing the level of Directors remuneration, which is set at a level sufficient to attract and retain directors of the calibre required to manage the Company successfully.

The Board welcomes dialogue with shareholders and encourages measures to enhance shareholder communication. The Board particularly welcomes the participation of shareholders at the Annual General Meeting. With regard to the Code requirement C.2.1, the level of proxy votes lodged on each resolution was not indicated at the Company's 1998 Annual General Meeting, which took place prior to the publication of the Combined Code in the Listing Rules. The code requirement C.2.1, was subsequently adopted at the 1999 Annual General Meeting held on the 7th July 1999.

Other than this, the Company has complied with all those provisions set out in the Combined Code which are appropriate to investment trust companies.

Internal Financial Controls

The Directors are reviewing the Company's internal control systems in the light of the Combined Code. The Directors will report on their review next year, after the guidance from the Turnbull Committee on internal controls has been issued. In the meantime, as allowed by the London Stock Exchange, the Directors continue to report on internal financial controls.

REPORT OF THE DIRECTORS

The Directors have reviewed the effectiveness of the Company's systems of internal financial control for the period from 1st July 1998 up to the date of this Report and confirm that they are appropriate to its business activities and methods of operation. Systems are in operation to safeguard the Company's assets and the shareholders' investment, to maintain proper accounting records and to ensure that financial information used within the business or published is reliable. As such, the systems of internal financial control provide reasonable, but not absolute, assurance against material misstatement or loss.

Under the terms of the Management and Custody Agreements referred to on page 18, Gartmore Investment Limited provides investment management, accounting and secretarial services, and the Bank of New York custodian services to the Company. A clearly defined investment strategy is set for the Managers and monitored by the Board, which regularly reviews the Company's investments, liquid assets and liabilities, investment transactions, and revenue and expenditure. Gartmore's systems of internal financial 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.

Supplier Payment Policy

In accordance with the policy set out by the Company, all creditors are discharged on the due date for payment, including Stock Exchange transactions which are paid in accordance with normal settlement terms.

Duration of the Company

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.

Personal Equity Plans

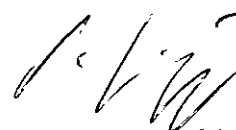
The Directors intend to ensure that the Company's shares continue to qualify for retention in Personal Equity Plans.

Auditors

PricewaterhouseCoopers having expressed their willingness to continue in office as Auditors, a resolution proposing their re-appointment and authorising the Directors to fix their remuneration was approved at the Annual General Meeting held on 7th July 1999.

Registered Office

The Company's Registered Office was changed to Gartmore House, 8 Fenchurch Place, London EC3M 4PH, with effect from 1st May 1999.



By Order of the Board
GARTMORE INVESTMENT LIMITED
Secretaries
5th August 1999

DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year, and of the results for the year ended 30th June 1999. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

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

AUDITORS' REPORT

To the Members of Gartmore Fledgling Index Trust plc

We have audited the financial statements on pages 23 to 32 which have been prepared on the basis of the accounting policies set out on pages 26 and 27.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including, as described on page 21, the financial statements. Our responsibilities as independent Auditors are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 or the Listing Rules regarding the Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 19 and 20 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

Basis of Audit Opinion

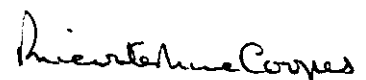
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30th June 1999, and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Southwark Towers
32 London Bridge Street
London SE1 9SY



PRICEWATERHOUSECOOPERS
Chartered Accountants
and Registered Auditors

5th August 1999

STATEMENT OF TOTAL RETURN

(Incorporating the Revenue Account) for the year ended 30th June 1999

				1999			1998
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	11	–	196	196	–	7,457	7,457
Income	2	1,991	–	1,991	3,006	–	3,006
Gains on Warrants buy-backs		–	777	777	–	–	–
Investment management fee	3	(442)	–	(442)	(722)	–	(722)
Other expenses	4	(149)	–	(149)	(205)	(40)	(245)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		1,400	973	2,373	2,079	7,417	9,496
Interest payable	6	(593)	–	(593)	(871)	–	(871)
NET RETURN BEFORE TAXATION		807	973	1,780	1,208	7,417	8,625
Taxation on ordinary activities	7	(287)	–	(287)	(417)	–	(417)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		520	973	1,493	791	7,417	8,208
Dividends in respect of Equity shares	8	(445)	–	(445)	(640)	–	(640)
TRANSFER TO RESERVES		75	973	1,048	151	7,417	7,568
RETURN PER ORDINARY SHARE (BASIC AND DILUTED)	10	1.57p	2.95p	4.52p	2.22p	20.86p	23.08p

All revenue and capital items in the above statement are derived from continuing operations

The comparative figures reflect the results for the eighteen month period to 30th June 1998.

The Notes on pages 26 to 32 form part of these Accounts.

BALANCE SHEET

	Notes	At 30th June 1999 £'000	At 30th June 1998 £'000
FIXED ASSETS			
Investments	11	49,298	55,516
CURRENT ASSETS			
Debtors	12	540	402
Bank balances		1,653	151
		<u>2,193</u>	<u>553</u>
Creditors: Amounts payable within one year	13	404	441
NET CURRENT ASSETS		<u>1,789</u>	<u>112</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>51,087</u>	<u>55,628</u>
CREDITORS: Amounts payable after one year	14	7,000	7,000
NET ASSETS		<u>44,087</u>	<u>48,628</u>
CAPITAL AND RESERVES			
Called-up share capital	15	7,609	8,890
Share premium account	16	—	23,162
Capital redemption reserve	16	1,281	—
Other reserves:			
Special reserve	16	18,706	—
Realised capital reserve	16	15,086	11,229
Unrealised capital reserve	16	(409)	2,475
Warrant reserve	16	1,384	2,517
Revenue reserve	16	430	355
EQUITY SHAREHOLDERS' FUNDS	18	<u>44,087</u>	<u>48,628</u>
NET ASSET VALUE PER ORDINARY SHARE	19	<u>144.9p</u>	<u>136.7p</u>
NET ASSET VALUE PER ORDINARY SHARE (DILUTED)	19	<u>143.5p</u>	<u>133.8p</u>



Director

Approved by the Board on 5th August 1999

The Notes on pages 26 to 32 form part of these Accounts.

CASH FLOW

		Year to 30th June 1999 £'000	Year to 30th June 1998 £'000
	<i>Notes</i>		
REVENUE ACTIVITIES			
Net dividends and interest received from investments		1,612	2,253
Interest received on deposits		76	37
Expenses paid		(575)	(924)
NET CASH INFLOW FROM REVENUE ACTIVITIES	20	1,113	1,366
SERVICING OF FINANCE			
Interest paid on fixed loan		(577)	(864)
Bank overdraft interest paid		(17)	(7)
CASH OUTFLOW FROM SERVICING OF FINANCE		(594)	(871)
TAXATION RECOVERED			
Tax credit		—	266
Income tax		—	3
NET TAX PAID		—	269
FINANCIAL INVESTMENT			
Acquisitions of investments		(18,608)	(33,881)
Disposals of investments		24,900	29,334
Expenses paid, allocated to capital		—	(40)
NET CASH INFLOW/(OUTFLOW) FROM INVESTMENT ACTIVITIES		6,292	(4,587)
CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		6,811	(3,823)
MANAGEMENT OF LIQUID RESOURCES			
Decrease in cash placed on short-term deposit		—	1,100
FINANCING			
Proceeds from issue of Ordinary shares on exercise of Warrants		—	1
Cost of Ordinary shares bought in for cancellation		(4,456)	—
Cost of Warrants bought in for cancellation		(356)	—
NET CASH FLOW (OUTFLOW)/INFLOW FROM FINANCING		(4,812)	1
EQUITY DIVIDENDS PAID			
Ordinary shares		(497)	(640)
NET CASH INFLOW/(OUTFLOW)	21	1,502	(3,362)

The Notes on pages 26 to 32 form part of these Accounts.

NOTES TO THE 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 accounts 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 accounts 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 presentation 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.

Comparative Figures

The comparative figures reflect the results for the eighteen month period to 30th June 1998.

True and Fair Override

During the year, the Company ceased to be an investment company within the meaning of Section 266 of the Companies Act 1985. However, it continued to conduct its affairs as an investment trust for taxation purposes under Section 842 of the Income and Corporation Taxes Act 1988 and the Articles of the Company continued to prohibit capital profits from being distributed by way of dividend. Accordingly, the Directors consider it necessary to continue to present the accounts in accordance with the SORP. Under the SORP, the financial performance of the trust is presented in a statement of total return in which the revenue column is the profit and loss account of the Company. The revenue column excludes certain capital items which, since the Company is no longer an investment company, the Companies Act and/or Financial Reporting Standard 3 would ordinarily require to be included in the profit and loss account: profits and losses on disposal of investments, calculated by reference to their previous carrying amount, of £362,000 (£4,616,000).

In the opinion of the Directors the inclusion of these items in the profit and loss account would be misleading because they would obscure and distort both the revenue and capital performance of the Company, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

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.

Investments

Investments are treated as fixed assets and are shown in the balance sheet at valuation. The

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

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 and investments quoted on the Unlisted Securities Market are valued at closing market prices on that date. Profits or losses on the realisation of investments are taken to Capital reserve in accordance with the Company's Articles of Association and are not distributable.

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.

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 capital reserve account.

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. INCOME	1999 £'000	1998 £'000
Income from UK investments:		
Listed investments:		
Franked dividends	1,879	2,916
Foreign income dividends	34	54
UK stock dividends	2	–
Unfranked dividends	1	1
	<hr/> 1,916	<hr/> 2,971
Interest		
Listed investments:		
Interest on bonds	–	1
	<hr/> 1,916	<hr/> 2,972
Interest on deposits	75	34
	<hr/> 1,991	<hr/> 3,006

NOTES TO THE ACCOUNTS

3. INVESTMENT MANAGEMENT FEE	1999	1998
	£'000	£'000
Investment management fee	376	614
Irrecoverable VAT thereon	66	108
	442	722

The investment management fee, payable to Gartmore Investment Limited, has been calculated monthly in arrears at 0.8% per annum of the Company's total assets, less current liabilities.

4. OTHER EXPENSES	1999			1998		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Directors' remuneration	41	—	41	54	—	54
Auditors' remuneration	10	—	10	10	—	10
Reorganisation expenses	—	—	—	—	40	40
General expenses	98	—	98	141	—	141
	149	—	149	205	40	245

5. DIRECTORS' REMUNERATION	1999	1998
	£'000	£'000
For services as Directors	41	42
Consideration paid to a third party	—	12
	41	54

The remuneration of the Chairman, who was the highest paid Director, was £12,000. The fees of the other Directors are payable at the rate of £9,000 each per annum. One Director waived half his remuneration for the year to 30th June 1999.

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

6. INTEREST PAYABLE	1999	1998
	£'000	£'000
On sterling loan repayable within 5 years	577	862
On bank overdraft	16	9
	593	871

7. TAXATION	1999	1998
	£'000	£'000
United Kingdom taxation:		
Tax credits on franked dividends	287	583
Tax credits recoverable against expenses	—	(163)
Prior year credit	—	(3)
	287	417

8. EQUITY DIVIDENDS	1999	1998
	£'000	£'000
1st Interim paid – 0.40p (0.40p) Ordinary shares	141	142
2nd Interim paid – Nil (0.40p)	—	142
Proposed final – 1.00p (1.00p)	304	356
	445	640

NOTES TO THE ACCOUNTS

9. TOTAL RETURN PER ORDINARY SHARE

The Total Return per Ordinary share is calculated on a return for the year to Ordinary shareholders of £1,493,000 (£8,208,000) and the weighted average of Ordinary shares in issue during the period of 33,018,412 (35,559,419).

10. REVENUE RETURN PER ORDINARY SHARE

Revenue return per Ordinary share is calculated on a return of £520,000 (£791,000) for the year and the weighted average of 33,018,412 (35,559,419) Ordinary shares in issue.

11. INVESTMENTS	1999 £'000	1998 £'000
(i) Movement of investments held as fixed assets:		
Book cost brought forward	53,041	44,778
Acquisitions at cost	18,611	28,726
Proceeds of disposals	(25,025)	(25,639)
Net profit on disposals	3,080	5,176
Disposals at cost	(21,945)	(20,463)
Book-cost at 30th June	49,707	53,041
Unrealised (depreciation)/appreciation	(409)	2,475
Valuation at 30th June	49,298	55,516
(ii) Analysis of investments at valuation:		
Listed in Great Britain at market value	49,298	55,449
Unlisted in Great Britain	—	67
	49,298	55,516
(iii) Analysis of gains/(losses) on investments at 30th June		
Net realised gains based on historical cost	3,080	5,176
Less: Amount recognised as unrealised in earlier years	(2,718)	(560)
Net realised gains based on carrying value at previous balance sheet date	362	4,616
Net unrealised (depreciation)/appreciation arising during the year	(166)	2,841
	196	7,457

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

12. DEBTORS	1999 £'000	1998 £'000
Amounts receivable within one year:		
Investments sold	256	131
Prepayments	4	5
Accrued income	280	266
	540	402

NOTES TO THE ACCOUNTS

13. CREDITORS	1999	1998
	£'000	£'000
Amounts payable within one year:		
Accrued expenses	100	85
Proposed final dividend	304	356
	404	441

14. CREDITORS	1999	1998
	£'000	£'000
Amounts payable after one year:		
Fixed loan (unsecured)	3,600	3,600
Fixed loan (unsecured)	3,400	3,400
	7,000	7,000

The loans are repayable on 24th December 2001 and 31st December 2001 respectively with interest fixed at 8.27% and 8.22% for the entire term of the loan.

15. CALLED-UP SHARE CAPITAL	1999			1998
	Allotted, Called-up and			Allotted, Called-up and
	Authorised	Fully paid	Authorised	Fully paid
	£'000	£'000	£'000	£'000
Ordinary shares of 25p each				
Authorised 70,000,000 (70,000,000)				
– Issued 30,435,030 (35,560,030)	17,500	7,609	17,500	8,890

The Ordinary shares, together with one Warrant for every five shares, were subscribed at 100p per share as to 32,767,105 shares in cash and 2,740,225 shares for a consideration other than cash on the Company's flotation on 20th December 1994.

During the year no Ordinary shares were issued against the cancellation of Warrants. During the same period the Company repurchased 5,125,000 Ordinary shares for £4,456,000 representing 14.4% of its issued share capital and 3,172,165 Warrants for £356,000, for cancellation.

At 30th June 1999, there were 3,876,601 (7,048,766) Warrants remaining in issue entitling the holders to subscribe for Ordinary shares at 100p per share on the basis of one Ordinary share for each Warrant held on 1st December in any of the years to 2001, the last exercise date.

NOTES TO THE ACCOUNTS

16. CHANGES IN SHARE CAPITAL AND RESERVES

	Share Capital £'000	Capital Redemption Reserve £'000	Share Premium £'000	Warrant Reserve £'000	Special Reserve £'000	Capital Accounts		Revenue Reserve £'000	Total £'000
						Realised	Unrealised		
At 1st July 1998	8,890	—	23,162	2,517	—	11,229	2,475	355	48,628
Share premium cancellation			(23,162)		23,162	—	—	—	—
Share buy-backs	(1,281)	1,281	—	—	(4,456)	—	—	—	(4,456)
Warrant buy-backs	—	—	—	—	—	(356)	—	—	(356)
Transfer of unrealised appreciation on investments sold	—	—	—	—	—	2,718	(2,718)	—	—
Movement in unrealised appreciation on investments	—	—	—	—	—	—	(166)	—	(166)
Realised gains on investments	—	—	—	—	—	362	—	—	362
Transfer from Warrant reserve	—	—	—	(1,133)	—	1,133	—	—	—
Net revenue return after taxation	—	—	—	—	—	—	—	520	520
Equity dividends	—	—	—	—	—	—	—	(445)	(445)
At 30th June 1999	<u>7,609</u>	<u>1,281</u>	<u>—</u>	<u>1,384</u>	<u>18,706</u>	<u>15,086</u>	<u>(409)</u>	<u>430</u>	<u>44,087</u>

During the year to 30th June 1999, the Company, repurchased 5,125,000 of its own Ordinary shares and 3,172,165 Warrants. The buy-backs of the Ordinary shares were made from the special distributable reserve arising from the cancellation of the share premium account. Legal and other costs amounting to £92,000 in respect of the share buy-backs have been charged against the special reserve.

17. CONTINGENT LIABILITIES

There were no contingent liabilities at the year end.

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Balance brought forward	48,628	41,060
Share buy-backs	(4,456)	—
Transfer from Warrant reserve	(1,133)	—
Distributable revenue	520	791
Dividends paid and payable	(445)	(640)
Capital profits	973	7,417
Balance attributable to Ordinary shares at 30th June	<u>44,087</u>	<u>48,628</u>
ATTRIBUTABLE TO:		
Equity interests:		
Ordinary shares	<u>44,087</u>	<u>48,628</u>

19. NET ASSET VALUE PER ORDINARY SHARE

The Net Asset Value per Ordinary share is calculated on attributable assets of £44,087,000 (£48,628,000) and 30,435,030 (35,560,030) Ordinary shares in issue at the year-end. The diluted Net Asset Value per Ordinary share, is calculated on the additional number of Ordinary shares Warrantholders would have received on exercise compared with the number of Ordinary shares the proceeds would have purchased at the fair value of the shares, at the year-end. Accordingly, the diluted Net Asset Value per Ordinary share is calculated based on 30,722,186 Ordinary shares (36,343,226).
Prior year figures have been restated.

NOTES TO THE ACCOUNTS

20. CASH FLOW FROM REVENUE ACTIVITIES	1999	1998
	£'000	£'000
Net revenue before taxation	807	1,208
Stock dividends	(2)	–
Interest payable	593	871
Tax deducted at source from investment income	(287)	(584)
Increase in accrued income	(14)	(132)
Decrease in prepayments	1	2
Increase in accrued expenses	15	1
	<u>1,113</u>	<u>1,366</u>

21. ANALYSIS OF CHANGES IN NET DEBT

This analysis represents the reconciliation of net cash flow to the movement in net funds in accordance with Financial Reporting Standard No.1 (revised) relating to Cash Flow Statements.

	At 30th June	Cash flow	At 1st July
	1999		1998
	£'000	£'000	£'000
Cash at bank	1,653	1,502	151
Bank loan falling due after more than one year	(7,000)	–	(7,000)
	<u>(5,347)</u>	<u>1,502</u>	<u>(6,849)</u>

22. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

In accordance with the Company's investment objective, as stated on page 2, the Company invests in equity shares, or securities convertible into equity shares, of UK companies. The main risks arising from the Company's pursuit of its investment objective are market price risk, credit risk and liquidity risk.

Market price risk is the possibility of financial loss to the Company arising from fluctuations in the value of its investments as a result of changes in market prices. Given the Company's objective to broadly match the performance of its benchmark index through an indexed approach, the significance of market price risk is viewed as relatively less important compared to the risk of a significant divergence between the performance of the Company and its benchmark. The Directors meet regularly with the Managers to monitor this risk element using measures such as tracking error, sector and style biases within the Company's portfolio. During the year ended 30th June 1999, the Company did not use derivative instruments to hedge its portfolio against market price risk given the Company's objective to broadly match its benchmark, the benchmark being subject to market price risk.

Credit risk is the exposure to loss from failure of a counter-party to deliver securities or cash for purchases and sales. The Company manages risk by using brokers from a database of approved brokers, who have undergone rigorous due diligence tests by the Managers' Risk Management Team.

Liquidity risk is the possibility of failure of the Company to realise assets to meet its financial liabilities. Some liquidity risk is inherent in a portfolio of smaller companies. This is minimised through a policy of investing only in listed companies and through holding a relatively large number of diverse stocks.

As disclosed in Note 14 on page 30, the Company is indebted by way of two fixed loans amounting to £7,000,000. At 30th June 1999, the weighted average interest rate was 8.24% and the weighted average period for which the rate was fixed was 2.5 years. Under the terms of the loan agreement, immediate repayment of the loan may be demanded should the value of the Company's Net Assets fall below £30,000,000. At the year-end, the fair value of the loans was £7,319,000 based on the face value of the loans of £7,000,000 and an early repayment penalty of £319,000.

The carrying value of the Company's assets and liabilities at 30th June 1999 was the fair value, except for the loans for which the fair value is given above.

Short term debtors and creditors are not included in the above disclosures.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Gartmore Fledgling Index Trust plc will be held at Gartmore House, 8 Fenchurch Place, London EC3M 4PH, on Tuesday, 5th October 1999 at 12.00 noon for the following purposes:

ORDINARY BUSINESS

1. to receive the Report of the Directors and the Accounts for the year ended 30th June 1999, together with the Report of the Auditors;
2. to declare a final dividend of 1.00p for the year ended 30th June 1999.



By Order of the Board
GARTMORE INVESTMENT LIMITED

Secretaries

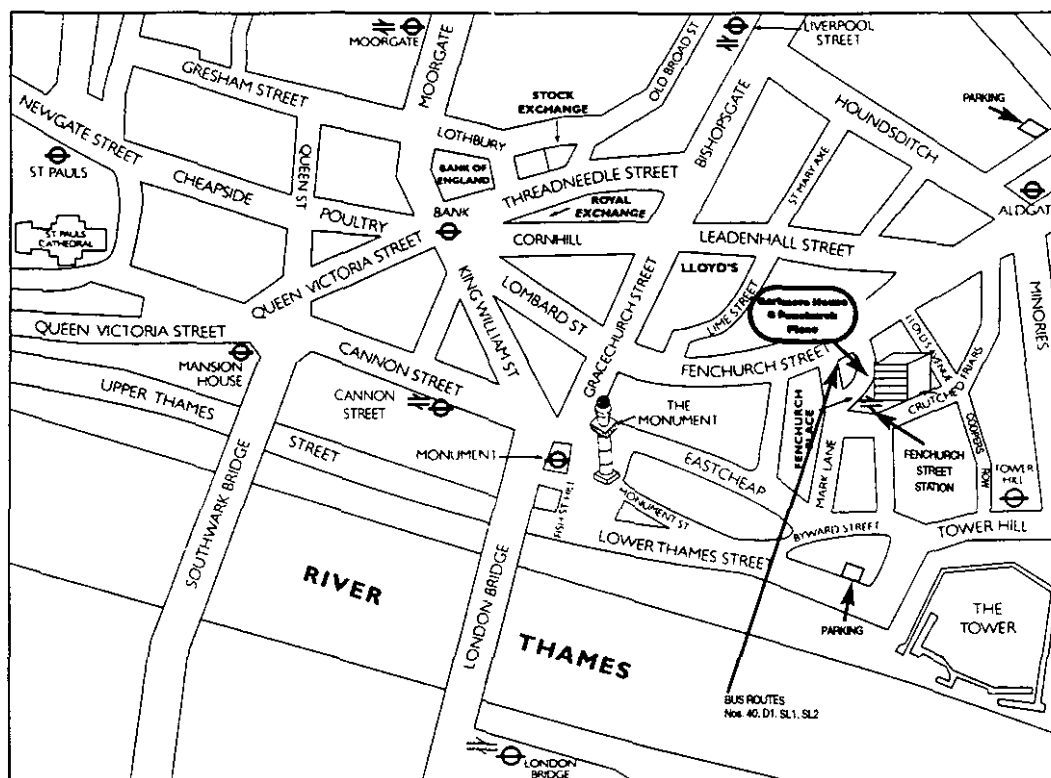
31st August 1999

The Company, pursuant to Regulation 34 of the Uncertified Securities Regulations 1995, has specified that only those shareholders on the Register of Members of the Company at 12 noon on 3rd October 1999 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of Ordinary shares registered in their name at that time. Changes to entries on the relevant Register of members after 12 noon on 3rd October 1999 shall be disregarded when determining the rights of any person to attend or vote at the meeting.

NOTES:

- (1) A Member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a Member. A Form of Proxy is enclosed. 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.
- (2) This Report is sent to holders of the Company's warrants, but only holders of the Company's Ordinary shares are entitled to attend and vote at the Meeting. To be entitled to attend and vote at the Meeting, Ordinary shareholders must be entered on the Company's Register of Members at the close of business on 3rd October 1999.
- (3) The Register of Directors' Interests in the capital of the Company will be available for inspection at the Meeting.
- (4) No Director has a contract of service with the Company.
- (5) 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.

HOW TO FIND US



An Extraordinary General Meeting of the Company will be held at
Gartmore House, 8 Fenchurch Place, London EC3M 4PH,
on Tuesday, 5th October 1999, at 12.00 noon.

Shareholders are invited to meet the Directors and the
portfolio manager, Gary Smith, after the Extraordinary General
Meeting, when a light buffet lunch and refreshments will be
available.

USEFUL INFORMATION FOR SHAREHOLDERS

Extraordinary General Meeting

An Extraordinary General Meeting will be held at Gartmore House, 8 Fenchurch Place, London EC3M 4PH, on Tuesday, 5th October 1999 at 12.00 noon.

Financial Calendar

The financial Calendar for 1999/2000 is set out below:

30th June	Company's year-end
August	Annual results for 1998/99 announced
October	Extraordinary General Meeting
October	Final dividend payable
1st December	Warrant subscription date
31st December	Company's half-year
January	Half-year results announced
March	Interim dividend payable

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 0870-601 5366.

Price and Performance Information

The Company's Ordinary shares and Warrants are listed on the London Stock Exchange and the prices are shown in the Financial Times under 'Investment Companies'.

Real-time share price information is available on the FT Cityline:

Dial 0891 43 4763 for the Ordinary shares

Dial 0891 43 4980 for the Warrants

Calls are charged at 50p/min at all times.

The Company's Net Asset Values per share are calculated daily and published electronically via TOPIC3, the Stock Exchange Information Service, and are also available on Reuters. Further information can be obtained from Gartmore via the internet or by telephone.

Free investor helpline: 0800-289 336

internet address: <http://www.gartmore.com>

e-mail address: helpline@gartmore.com

Share and Warrant Dealing Information

Investors wishing to purchase more shares or warrants in the Company or sell all or part of their existing holding may do so through a stockbroker. Most banks also offer this service.

Share Register Enquiries

Lloyds TSB Registrars, maintain the share registers on behalf of the Company. In the event of queries regarding your shares, please contact the Registrars on 0870-6015366. Changes of name or address must be notified in writing to the Registrars at the address shown on the next page.

USEFUL INFORMATION FOR SHAREHOLDERS

Gartmore SAVEit, ISAit and PEPit Enquiries

Details of the Gartmore Savings Plan and the Gartmore tax free Individual Savings Account are set out on page 37 of this Report, and enable individuals to buy shares in the Company in a straightforward and accessible way.

Enquiries about **SAVEit**, **PEPit** and Gartmore's **ISAit** should be directed to:

Investor Helpline	– Call free on 0800-289 336
Administration Helpline	– Call on 0870-601 6133
E-mail	– helpline@gartmore.com

Capital Gains Tax

To assist shareholders who subscribed at the time of the original issue in 1994, the adjusted base costs of the Ordinary shares and Warrants for capital gains tax (CGT) purposes given before indexation allowance were:

Ordinary shares	92.86p
Warrants	35.71p

Under present legislation, the annual capital gains of private individuals in excess of £7,100 are assessed to capital gains tax at 20% or 40%, subject to tapering relief.

Fact Sheets/SNIPits

Shareholders automatically receive a quarterly Gartmore investment trust newsletter. **SNIPits**. Bi-monthly fact sheets are also available for individual investment trusts on request from Gartmore Investment Limited, Gartmore House, 8 Fenchurch Place, London EC3M 4PH, or call free on 0800-289 336

Company Administration

Managers and Secretaries

Gartmore Investment Limited
Gartmore House
8 Fenchurch Place
London EC3M 4PH
Tel: 0171-782 2000

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

Stockbrokers

Kleinwort Benson Securities Limited
20 Fenchurch Street
London EC3P 3DB

Registrars and Transfer office

Lloyds TSB Registrars
117 Dundas Street
Edinburgh EH3 5ED
Tel: 0870-6015366

Registered Office

Gartmore House
8 Fenchurch Place
London EC3M 4PH

Registered No 2974633

England and Wales

The Association of Investment Trust Companies

The Company is a member of the Association of Investment Trust Companies, which produces monthly publications with detailed information on the majority of investment trusts. The Association of Investment Trust Companies can be contacted by telephone on 0171-282 5555.

INVESTING IN GARTMORE INVESTMENT TRUSTS

Gartmore has a range of savings schemes that offer 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 both.

There are three flexible schemes: **SAVEit**, **ISAit** and **PEPit**. Brief details of each scheme follow:

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 the full range of investment trusts managed by Gartmore. There is choice to invest in the UK or overseas and to choose income or capital growth. Any income can be reinvested or alternatively paid to your bank or building society account.

There are no annual or exit fees and a dealing fee on share purchases of just 1%. Moreover, you may switch from one Gartmore trust to another, at a cost of only 1% of the re-purchase value. There is no maximum investment level.

ISAit – a tax-efficient way to invest

Regular savings from £100 per month

Lump sum investments from £3,000

ISAit is the Individual Savings Account (ISA) for the full range of investment trusts managed by Gartmore. It offers income and capital gains tax concessions.

Investments held within **ISAit** are not subject to capital gains tax. Moreover, a 10% tax credit on all dividend distributions may be reclaimed up to 6th April 2004.

ISAit allows you to invest, via a maxi-ISA, up to a maximum of £7,000 per person in the 1999/2000 tax year, reducing to £5,000 in subsequent years. It is also available as a 'stocks and shares' mini-ISA, with a maximum investment of £3,000 per annum.

There is an initial charge of 3% and an annual fee of 0.5% (plus VAT). Switches from one Gartmore trust to another are available at a cost of only 1% of the re-purchase value.

PEPit Transfers – available for the transfers of existing schemes

The minimum transfer value from another PEP provider is £3,000

PEPit is the Personal Equity Plan (PEP) for eligible investment trusts managed by Gartmore. Although PEPs are now closed to new investment, existing plans can continue indefinitely.

If you are an existing **PEPit** investor you may switch from one Gartmore investment trust to another within the scheme at a cost of only 1% of the re-purchase value.

If you have a PEP with another Plan Manager, you may transfer existing schemes from previous tax years to **PEPit**.

For PEP transfers, there is an initial charge of 3%. For all plans there is an annual fee of just 0.5% (plus VAT).

How to receive further information

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

Alternatively, please contact an independent financial adviser.

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance is not necessarily a guide to future performance. Emerging markets are volatile and may suffer from liquidity problems. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Individual Savings Accounts were introduced on 6th April 1999 for an initial ten-year period. Personal Equity Plans held at 5th April 1999 are no longer able to accept further contributions, although they can continue to be held outside the Individual Savings Account with the same tax advantages. A 10% tax credit on dividends received within Individual Savings Accounts and Personal Equity Plans may be reclaimed up to 5th April 2004. The value of current tax relief depends on individual circumstances. If you have any doubts about your tax position, you should seek professional advice. The level of yield may be subject to fluctuation and is not guaranteed. If you have any doubt whether this product is suitable for you and you wish to obtain personal advice, please contact an independent financial adviser.

Issued and approved by Gartmore Investment Limited which is regulated by IMRO and the Personal Investment Authority and is a member of the NatWest and Gartmore Marketing Group, which markets pension schemes, regulated collective investment schemes and investment services.

THE MANAGERS

Gartmore Investment Limited, a subsidiary of Gartmore Investment Management plc, act as Managers and Secretaries to the Company. Gartmore Investment Management plc is a subsidiary of National Westminster Bank Plc.

The Company's portfolio is the responsibility of Gartmore's Quantitative Strategies Unit and is managed by Gary Smith. At their regular meetings, the Directors and the Managers review the Company's activities and performance and determine investment strategy.

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

At 30th June 1999, the Gartmore group had funds under management of over £52 billion, including the investment trust companies listed below.

Details of saving schemes for investing in Gartmore managed investment trusts are shown on page 37. The aims of Gartmore's other investment trusts are as follows:-

English & Scottish Investors p.Lc.

Capital growth from active investment on a world-wide basis.

Gartmore British Income & Growth Trust P.L.C.*

Capital and income growth from a portfolio with a gross yield equivalent to 140% of that available from the FTSE-All Share Index. Invests principally in high yielding UK companies.

Gartmore Emerging Pacific Investment Trust PLC

Long term capital growth from the emerging economies of the Far East excluding Japan and Australia

Gartmore European Investment Trust p.Lc.

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

Gartmore High Income Trust PLC*

A high level of income, plus the potential for capital growth. Invests primarily in UK equities, with some fixed interest securities.

Gartmore Irish Smaller Companies Investment Trust PLC

Long term capital growth from investment in companies incorporated in the Republic of Ireland or Northern Ireland.

Gartmore Shared Equity Trust P.L.C.*

High income and capital growth from investment in high-yielding UK securities.

Gartmore Select Japanese Investment Trust PLC

Long term capital growth from a diversified portfolio of quoted Japanese securities.

Gartmore Smaller Companies Trust p.Lc.

Long term capital and income growth from a focused portfolio of smaller UK companies.

Gartmore SNT PLC*

Capital and income growth from investment primarily in UK equities and convertible securities.

NatWest Smaller Companies Investment Trust PLC

Long term growth from investment in quoted UK smaller companies.

Second Scottish National Trust PLC*

Capital and income growth from higher-yielding UK equities, with some convertible and fixed interest securities.

The Gartmore Scotland Investment Trust PLC*

Capital and income growth from higher-yielding securities in quality UK companies. Has a core holding of large companies, plus selected smaller companies' shares.

**Split capital investment trust, with different classes of share that provide a variety of investment returns.*

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.

GARTMORE FLEDGLING INDEX TRUST plc

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London EC3M 4PH

Registered No. 2974633
England and Wales

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