

HERALD INVESTMENT TRUST plc

REPORT & ACCOUNTS

31 December 2003

CONTENTS

1	Company Summary
2	Year's Summary
3	Long Term Performance Summary
4	Directors, Manager and Advisers
5	Chairman's Statement
	Portfolio Review
6	Investment Manager's Report
9	Top Twenty Holdings
12	Classification of Investments
12	Geographical Spread of Investments
13	Detailed List of Investments
18	Long Term Record
19	Directors' Report
22	Directors' Remuneration Report
24	Corporate Governance
26	Statement of Directors' Responsibilities
27	Independent Auditors' Report
28	Statement of Total Return
29	Balance Sheet
30	Cash Flow Statement
31	Notes to the Accounts
39	Notice of Annual General Meeting
40	Further Shareholder Information

COMPANY SUMMARY

COMPANY DATA AT 31 DECEMBER 2003

Total assets†	Shareholders' funds	Market capitalisation
£350m	£321m	£286m

† before deduction of bank loans.

Policy and Objective Herald's objective is to achieve capital appreciation through investments in smaller quoted companies, in the areas of communications and multi-media. Investments will be made throughout the world. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies.

Benchmark The portfolio benchmark against which performance is measured is $\frac{2}{3}$ Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies) and $\frac{1}{3}$ Russell 2000 (small cap) Technology Index (in sterling terms).

Management Details Herald Investment Management Limited ('HIML') is the appointed investment manager to the Company. The management contract can be terminated at twelve months' notice. Administration of the Company and its investments is contracted by HIML to Baillie Gifford & Co., who also act as Company Secretary.

Capital Structure The Company's share capital consists of 87,807,348 ordinary shares of 25p each which are issued and fully paid.
The Company has been granted authority to buy back a limited number of its own Ordinary shares for cancellation.

Management Fee Herald Investment Management Limited's annual remuneration is 1.0% of the Company's net asset value, calculated on a monthly basis payable in arrears.

Wind-Up The Company's Articles of Association require the Directors to propose an ordinary resolution at the Annual General Meeting of the Company in 2004 (and at every third subsequent Annual General Meeting) proposing that the Company will continue to operate as an investment trust company.

AITC The Company is a member of the Association of Investment Trust Companies.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

YEAR'S SUMMARY

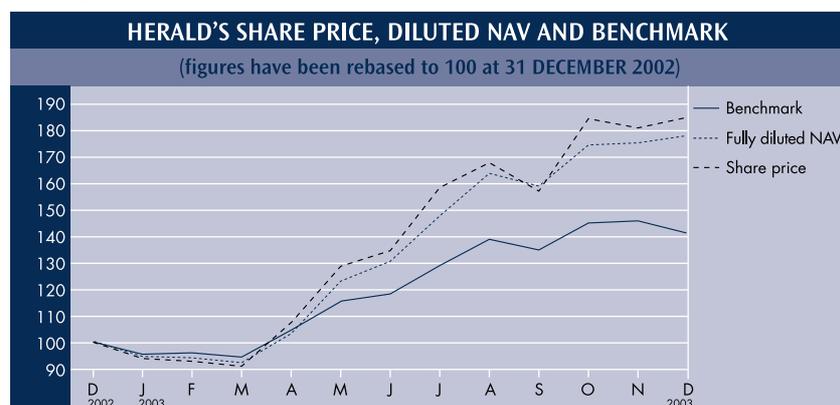
	31 December 2003	31 December 2002	% change
Total assets (before deduction of bank loans)	£350.2m	£199.9m	
Bank loans	£29.3m	£22.3m	
Equity shareholders' funds	£320.9m	£177.6m	80.7
Net asset value per ordinary share	365.4p	210.2p	73.8
Diluted net asset value per ordinary share (FRS 14)‡	365.4p	206.7p	76.8
Fully diluted net asset value per ordinary share‡	365.4p	206.0p	77.4
Share price	325.3p	177.0p	83.8
Warrant price‡	–	79.0p	
FTSE 100	4,476.9	3,940.4	13.6
FTSE All-Share	2,207.4	1,893.7	16.6
FTSE Small Cap	2,475.1	1,820.6	35.9
Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies)	2,346.7	1,693.9	38.5
Russell 2000 (small cap) Technology Index (in sterling terms)	72.9	49.6	47.0
Benchmark composite index			41.7
Dividend per ordinary share	0.30p	0.85p	(64.7)
Earnings per ordinary share	0.32p	0.74p	(56.8)
Expense ratio	1.20%	1.21%	
(Discount)/premium	(11.0%)	(15.8%)	
(Discount)/premium (to diluted net asset value (FRS14))	(11.0%)	(14.4%)	

	Year to 31 December 2003		Year to 31 December 2002	
	High	Low	High	Low
Year's high and low (on month end values)				
Share price	325.5p	160.5p	306.0p	133.0p
Warrant price	90.5p	62.5p	212.5p	45.0p
Net asset value	366.0p	193.4p	322.9p	189.2p
Fully diluted net asset value‡	366.0p	189.8p	314.4p	185.8p
(Discount)/premium (to fully diluted net asset value)	(8.1%)	(15.4%)	(2.7%)	(28.4%)

	31 December 2003	31 December 2002
Total return per ordinary share		
Revenue	0.32p	0.74p
Capital	161.39p	(112.55p)
Total	161.71p	(111.81p)

Past performance is no guarantee of future performance.

‡ The final subscription date of the Company's warrants, which entitled the holder to subscribe for one ordinary 10p share in the Company at 100p per ordinary share between 1995 and 2003 inclusive was 30 April 2003. The warrants have now all been exercised (see note 15, page 36).



Source: Thomson Financial Datastream.

*²/₃ Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies) and ¹/₃ Russell 2000 (small cap) Technology Index (in sterling terms).

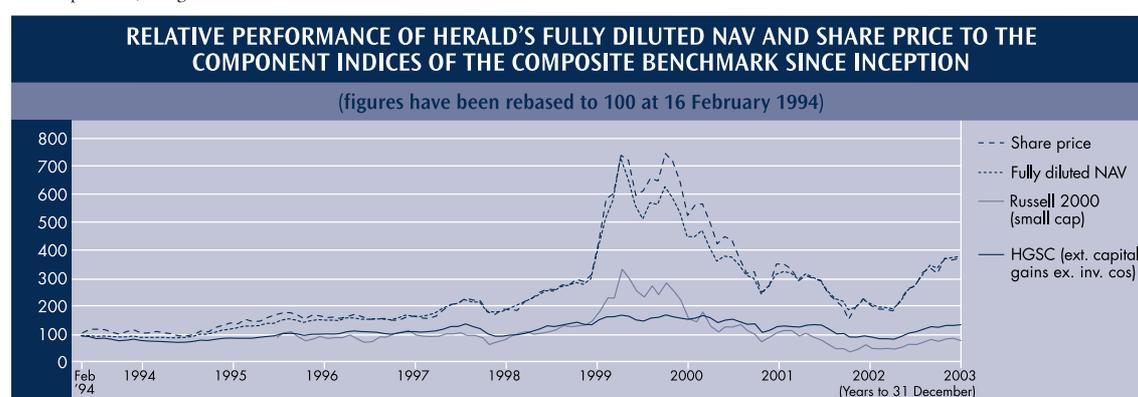
Dividends are not reinvested.

LONG TERM PERFORMANCE SUMMARY

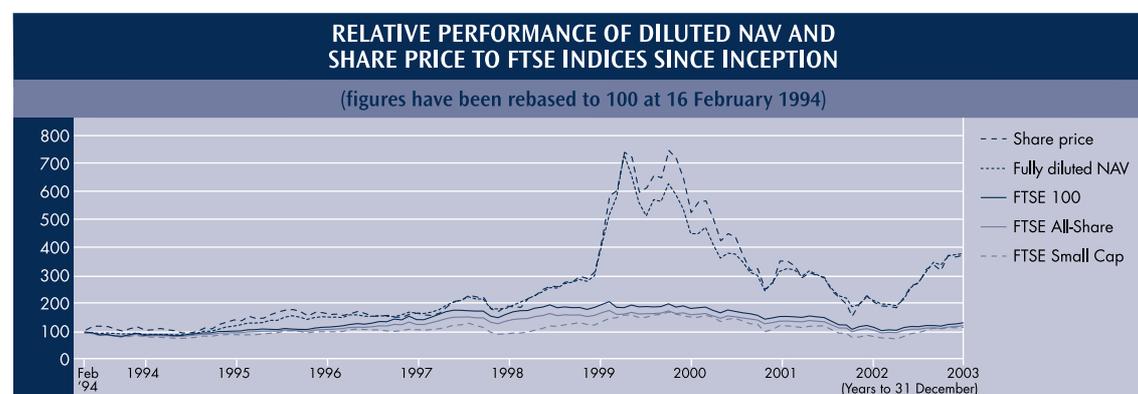
The following charts indicate how an investment in Herald has performed relative to its comparative indices (applied retrospectively) and its underlying fully diluted net asset value over the period since inception of the Company.

	31 December 2003	Inception 16 February 1994	% change
Fully diluted net asset value per ordinary share	365.4p	98.7p	270.2
Share price	325.3p	90.9p	257.9
Hoare Govett Smaller Companies Index <small>(extended capital gains ex. investment companies)</small>	2,346.7	1,750.0	34.1
Russell 2000 (small cap) Technology Index <small>(in sterling terms)</small>	72.9	83.2*	(12.4)
FTSE 100	4,476.9	3,417.7	31.0
FTSE All-Share	2,207.4	1,717.8	28.5
FTSE Small Cap	2,475.1	2,076.1	19.2

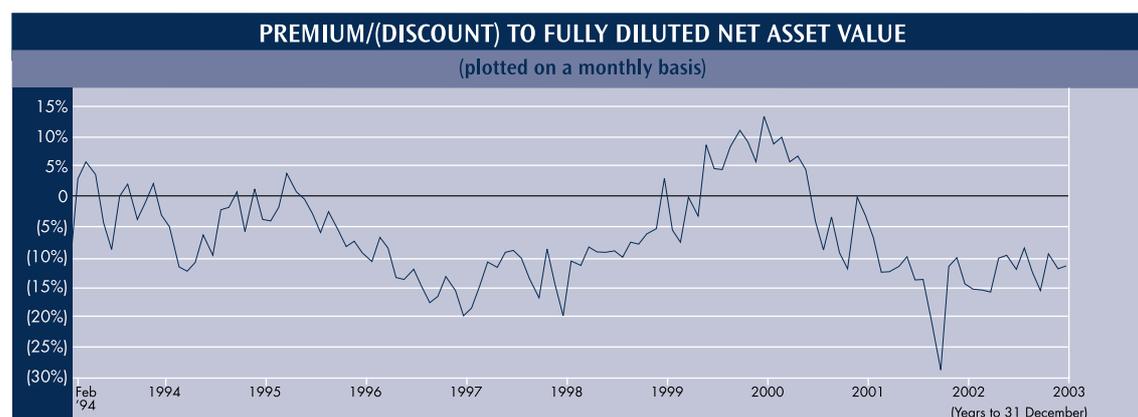
* at 9 April 1996, being the date funds were first available for international investment.



Source: Thomson Financial Datastream



Source: Thomson Financial Datastream



Source: Thomson Financial Datastream

The premium/(discount) is the difference between Herald's quoted share price and its underlying fully diluted net asset value.

DIRECTORS, MANAGER AND ADVISERS

Directors

Martin Boase, MA, FIPA (Chairman), aged 71, formed advertising agency Boase Massimi Pollitt plc in 1968 which was floated on the London Stock Exchange in 1983. He was chairman of the Advertising Association from 1987 to 1992 and is currently chairman of The Maiden Group plc, The Investment Trust of Investment Trusts PLC and Jupiter Dividend and Growth Investment Trust PLC.

Clay Brendish, CBE, aged 56, was appointed to the Board on 23 July 2001. He has been Non-Executive Chairman of Beacon Investment Fund since 1995 and Echo Research Limited Since July 2003. He is a trustee of the Economist Newspapers Limited together with the Foundation for Liver Research and became a council member of the City University of London in July 2000. Clay's other Non-Executive Directorships are of British Telecommunications plc, Elexon Limited, the Defence Logistics Organisation (DLO) and the Defence Communication Services Agency (DCSA) Owners Advisory Board. He has been in the computer systems environment and high technology industry for over 30 years. He was formerly Executive Chairman of Admiral plc and, in turn, Deputy Chairman of CMG plc when the companies merged. He has also held a number of Government advisory posts.

Justin Dukes, aged 62, is chairman of ECIC Management Limited, Intelmedia Limited and Intelfax Limited and is a director of VTR plc. He was the founding managing director of Channel Four Television and joint managing director of the Financial Times Group. He is a former president of the Institute of Information Scientists and is a Companion of the Institute of Management.

Colin McCarthy, FCA, MCT, aged 66, joined Bowthorpe plc (now Spirent plc, the international network technology company) in 1962, and was financial director from 1982 until his retirement in 1999.

Douglas McDougall, OBE, aged 59, was appointed to the Board on 13 February 2002. He has extensive experience in the fund management industry and is a former senior partner of Baillie Gifford & Co. He is chairman of The Law Debenture Corporation plc, Foreign & Colonial Eurotrust PLC, The Independent Investment Trust PLC, Pacific Horizon Investment Trust PLC, The Scottish Investment Trust PLC and 3i Bioscience Investment Trust plc. He is a former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association.

Clive Parritt, FCA, FIIA, aged 60, is a chartered accountant with over 25 years' experience of providing strategic, financial and commercial advice to medium sized businesses. He has a particular interest in the multi-media arena having

led the media team at Baker Tilly, Chartered Accountants. Until February 2001 he was also chairman of Baker Tilly having been its national managing partner for ten years until June 1996. He is a member of the Council of the Institute of Chartered Accountants in England and Wales, chairman of Baronsmead VCT2 plc and a director of The Business Exchange plc (a leading independent corporate finance house where he was chief executive until July 2003). Previously he has been a director of a number of investment trusts, VCTs and media businesses.

Secretary

Baillie Gifford & Co.
Calton Square
1 Greenside Row
Edinburgh EH1 3AN
Tel: 0131 275 2000

Registered Office

12 Charterhouse Square
London EC1M 6AX

Company Number

2879728 (England and Wales)

Manager

Herald Investment Trust plc is managed by Herald Investment Management Limited. The senior director of HIML with prime responsibility for the management of Herald Investment Trust is Katie Potts.

Katie Potts

Herald Investment Management Limited
12 Charterhouse Square
London EC1M 6AX
Tel: 020 7553 6300
Fax: 020 7490 8026
Website: www.heralduk.com
E-mail: info@heralduk.com

Advisers

Solicitors	Auditors
Macfarlanes	Ernst & Young LLP
10 Norwich Street	Ten George Street
London EC4A 1BD	Edinburgh EH2 2DZ

Bankers	Stockbroker
The Bank of New York	Cazenove & Co. Ltd
One Canada Square	12 Tokenhouse Yard
London E14 5AL	London EC2R 7AN

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 0870 1623131
E-mail: shareholder.services@capitaregistrars.com
Website: www.capitaregistrars.com

CHAIRMAN'S STATEMENT

There has been a satisfactory bounce in the assets of the Trust this year from the oversold position a year ago. Overall the fully diluted net asset value has risen 77.4%. The borrowings of £20m taken on in November 2002 were an indication of the Manager's belief that markets had become too cautious. The borrowings were taken on at 2.1% in US\$, at an exchange rate of \$1.56 so there was the additional benefit of hedging some US assets against \$ weakness. The assets weakened again in the first quarter reflecting pessimism about the Gulf War, but HIT's assets bottomed 5% higher than the Autumnal low. This provided an opportunity to borrow a further £10m at 1.85% once shareholders had approved an increase in borrowing limits at the Annual General Meeting, and buy assets at very cheap rates. However, by April it was clear that liquidity was limited and the market was overdue a strong rally.

Although there has been a widespread re-rating the fund has outperformed the most relevant indices. In the UK the total return was +80.3%, whereas Techmark 100 grew 56.4% (59.5% total return), and the Hoare Govett Smaller Companies Index grew 38.5%, albeit a weighted basket of the most relevant sectors was +57.8%. In the US, as in the UK, small companies outperformed large and the Russell 2000 Technology index grew 63.4% in \$, whereas the HIT US portfolio grew 78.9% in \$. The Asian and European performances were somewhat less, but account for a much lower proportion of the assets. It is particularly pleasing that the fund was able to outperform the relevant technology and media indices in the declining markets of the previous two years, and outperform the rising market in 2003. This reflected the move from c£45m cash and gilts at the start of 2002 to a geared position at the end, and the purchase of a number of very small more highly leveraged stocks.

Whilst much of the bounce was from technically oversold positions, there has been growing evidence of economic recovery. Businesses have reverted to more sound principles, and profits have become fashionable again after the alarming period in the boom around the turn of the century when the focus moved higher up the profit and loss account to EBITDA (earnings before interest, tax, depreciation and amortisations) and revenues. Recovery in the US is more evident with an astonishing 8% GDP growth in Q3. Furthermore there is margin expansion as cost benefits are coming through, leading to some strong profit improvements. There are already electronic component shortages, and certain semiconductors are in short supply. Even the telecoms sector which experienced the biggest boom and bust is seeing improvements with a stronger statement from Nokia. The economy has to remain strong for further progress from current levels. In the short term this is probable, albeit there are worrying structural flaws in the world economy such as the level of consumer debt in the Anglo-Saxon world and the US trade deficit. The weakness of the \$ will have ramifications, and will not help a number of the UK holdings.

The Trust's revenue profitability has been adversely affected by the reduced interest income, and indeed the interest payable. The objective of the fund has always been capital appreciation, and we are unrepentant about the income cost, because the capital account has so clearly benefited.

In conclusion, the year has been satisfactory. We remain of the view that the area of small young companies can outperform over the long term, but similar strength cannot be expected this year.

Colin McCarthy has intimated that he will retire after the Annual General Meeting in April, I would like to express my thanks for his valued contribution to the Company over the past ten years. Board composition is being reviewed in the light of the revised Combined Code on Corporate Governance.

The Company's Articles of Association give shareholders the right to vote at the Annual General Meeting on 14 April 2004 as to whether the Company should continue to operate as an investment trust. Herald has been one of the best performing trusts over 10 years and the Directors have every confidence that satisfactory performance should continue. Accordingly, the Directors intend to vote their own shareholdings in favour of the resolution for the Company to continue as an investment trust. I encourage shareholders to give due consideration to this important matter and express their wishes by casting their vote. Also part of the business at the Annual General Meeting is a resolution to increase the aggregate annual limit of Directors' fees from £70,000 to £100,000. The current Directors' fees total £70,000 and consequently there is no scope for increase and with the extra burdens placed on directors nowadays it is likely that fees will generally continue to rise. It is not the intention that Directors' fees should increase to this limit in the forthcoming year but merely to provide flexibility for modest increases or to add to the Board number.

Martin Boase
Chairman

11 February 2004

INVESTMENT MANAGER'S REPORT

Managing money professionally is in some ways an unrewarding experience. It is unpleasant making a mistake and losing money, but even when you make money you invariably think it should have been more. The latter is the current emotion. I did believe it was an investing opportunity of a lifetime in the Autumn of 2002, but one can never be sure of timing, and I regret not borrowing even more money when there were so obviously gifts available. I regret that I find the market more difficult to forecast now. There is unquestionably greater optimism, but demand is built on a sea of debt.

The Gulf war is not on people's minds now, but the outcome is really worse than I imagined possible. In many parts of the world the Americans have become the common enemy more than terrorists. It is difficult to know what ramifications that will have economically, but make no mistake America leads the world for investors. They respect strong businesses, and those that invest in them. It is hard to see equity investors making good returns without a strong America. There is the additional problem that the US policy has been to avoid deflation and recession at any cost, and to what degree is the recent strength in the economy mortgaging the future?

So what is the choice? Almost certainly we have a five year bear market ahead of us in bonds. Many old established businesses face competition to an unprecedented degree with efficient communications, and the Chinese hungry to supply the West with goods with very low labour costs. Europe will struggle to recover with the Euro so strong versus the \$, which is the currency of much of the Far East as well as the US. I am aware that many people are more equipped to make macro-economic judgements, including many shareholders in Herald, but I have grown increasingly confident over the ten years that I have managed Herald Investment Trust that the micro view of the world on which we build our judgements, thinking about companies from first principles, can provide helpful macro insights. Above all what keeps my appetite as strong as ever for coming into the office everyday is the view that I would not want to manage any other class of asset, and the expectation every day that we will meet an exciting small company that is continuing to make progress, and will grow whatever the economic background. The assets in the Trust are still over 40% below their peak, but in terms of average valuations the decline is much greater, adjusting for both profits growth and the repositioning of the portfolio. In relative terms, therefore, I still remain confident.

PERFORMANCE ATTRIBUTION (in sterling terms)									
Equity markets	Benchmark allocation		Herald asset allocation		Performance*		Contribution to relative return	Contribution attributable to:	
	01.01.03	31.12.03	01.01.03	31.12.03	Herald	Benchmark		Stock selection	Asset allocation†
	%	%	%	%	%	%		%	%
UK	66.7	66.7	70.6	69.2	80.3	42.9	18.0	18.1	(0.1)
Europe ex. UK	–	–	7.0	6.5	52.5	–	0.2	–	0.2
Americas	33.3	33.3	20.4	19.4	60.8	46.9	1.5	1.8	(0.3)
Japan	–	–	0.6	0.7	44.0	–	–	–	–
Asia Pacific ex. Japan	–	–	9.2	7.5	33.9	–	(0.7)	–	(0.7)
Cash	–	–	4.7	5.8	17.8	–	(1.0)	–	(1.0)
Loans	–	–	(12.5)	(9.1)	(7.1)	–	6.3	–	6.3
Total	100.0	100.0	100.0	100.0	81.3	44.7	25.3	20.3	4.2

Source: HSBC.

* The above returns are calculated on a total return basis with net income reinvested. Dividends and interest are reinvested on a cash basis, unlike the NAV calculation where income is recognised on an accruals basis, relative performance may differ as a result.

Contributions cannot be added together, as they are geometric; for example, to calculate how a return of 81.3% (against a benchmark of 44.7%) translates into a relative return of 25.3%, divide the portfolio return of 181.3 by the benchmark return of 144.7 and subtract one.

† Asset allocation includes the contribution attributable to currency movements.

INVESTMENT MANAGER'S REPORT *continued*

UK

In 2002 the market for smaller market capitalisation stocks broke down in the UK. There was a wonderful opportunity to acquire material stakes in small companies at very low valuations. Many of the stakes in the Trust could not be acquired at today's valuation, and that is a strength looking forward. However, there have been some remarkable price appreciations. The overall return was 80.3%, but this was broadly based with 11 stocks appreciating more than 200%, and a further 23 stocks appreciating more than 100%. The top 10 in monetary terms appreciated by £47.4m of the total £96m growth, to which Amstrad, the best performing single stock appreciated by only £7.1m. Individually Amstrad was obviously an outstanding performance, but the point is there was no one stock wonder, the return was broadly based. Furthermore, six of these 10 were not owned in 2000, and all but one is a materially larger stake. This is a measure of the relatively high repositioning of the portfolio over this time.

In 2004 some companies will have to compete against a weaker \$, which will make exporting to the US, and competing with US/Far East businesses quite harsh. In addition GDP growth has not accelerated as it has in the US. On the other hand valuations are still reasonable.

The Techmark 100 rose 56.4% last year; the FTSE-IT Index rose 63.2%, and the FTSE-Media index rose 16.0%, and the HGSCI rose 38.5%. However, it is reasonable to compare Herald with the returns of the sectors within the Hoare Govett Index as follows:-

	weight in index	increase (total return)	weighted increase
Electronic and Electrical Equipment	1.85%	+49.4%	+6.9%
Media and Entertainment	4.80%	+37.6%	+13.6%
Information Technology	5.78%	+75.1%	+32.8%
Telecommunication Services	0.80%	+74.1%	+4.5%
	<hr/>		<hr/>
Total	13.23%		+57.8%
	<hr/> <hr/>		<hr/> <hr/>

US

The popular perception in London has consistently been, for a number of years, that valuations in the US are too high, particularly in the technology arena, even post bubble. There is no doubt that there was not the same breakdown in the market that there was in the UK, but there remains a greater interest and enthusiasm for growth investing. The problem with the UK is that there has not really been a growth sector to whet people's appetite as there has in the computer industry in the US. Although valuations did not fall as low as the UK the bounce back in the US has been as great. In fact the Russell 2000 Technology Index rising 63.4% in \$ terms exceeds the return on Techmark 100 of 56.4%, albeit in £ terms the return has only been 47.0%. The investment in the US from August onwards in 2002 proved timely, and the \$ return on the US portfolio was 78.9%, which is 15.5% ahead of the index. Following the AGM in April borrowings were increased to 83% of our \$ assets, so our \$ exposure was low. Attributing the gain on \$ borrowings to the US portfolio, because we would not have done this without \$ assets, increases the return in the US by c7%.

Six US holdings appreciated by more than 200%, and a further 16 appreciated more than 100%. The return on the top ten holdings was \$22.6m, of the total appreciation of \$47m. M-Systems was the best performing stock in \$ returns, appreciating \$3.79m or 122%.

I have travelled to the US four times in the last six months and it is getting harder to find value. On the other hand confidence is so much greater than it is in the UK, and there is real profits

INVESTMENT MANAGER'S REPORT *continued*

momentum, so it is a very brave man who bets against the US market. The weakening of the \$ should be a huge stimulus in the short term, just as it will be a depressant in Europe. After the election they will have to face up to the huge trade deficit, and rates will almost certainly go up. They have probably got away with it thus far because neither the Yen nor the Euro looks a viable alternative, but it will be important to see where the \$ bottoms. On balance stock selection is going to be crucial.

Europe

The notional Neuer Markt Index (the market itself having closed) has had a strong year, +62.9% or 76.1% adjusted for the Euro strength. We find Europe quite difficult to invest in given the cultural differences, and the poor economic background is not an incentive to overcome this. The performance was mixed, but strong contributions from United Internet, Icos Vision Systems and Sues Microtec covered up some poor decisions. The Nouveau Marche has been less buoyant up only 26.2% in Euros. Visits to a number of French companies in 2002 and 2003 were fruitless. Overall the Trust's return was 52.5% in Europe. Five holdings appreciated more than 100% of which the best was a German company United Internet, which appreciated by Euro2.0m, which was 189% on the investment at the start of the year.

Far East and Japan

Having outperformed in relative terms in 2002 relative returns were less good in 2003, and absolute total return was 34.6%. The exposure is skewed to economies whose currencies are pegged to or influenced by the \$, which has been a further drag. However, the yield is significant (3%). Three stocks appreciated by more than 100%.

Outlook

Although the risks in the world seem to have gone up, there is a recovery underway, and a multitude of interesting companies in our space. We continue to have gearing albeit at a more modest level, principally because of the rise in the value of the assets.

11 February 2004

INVESTMENT CHANGES (£'000)				
	Valuation at 31 December 2002	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 December 2003
Equities*:				
UK	125,801	(5,132)	101,318	221,987
Continental Europe	12,806	1,352	6,854	21,012
Americas	36,379	3,854	22,186	62,419
Japan	993	683	463	2,139
Asia Pacific	16,009	2,072	5,859	23,940
Total investments	191,988	2,829	136,680	331,497
Net liquid assets	7,912	10,700	100	18,712
Total assets	199,900	13,529	136,780	350,209

The figures above for total assets comprise assets less current liabilities before deduction of bank loans.

* Equities includes convertibles, preference stock and warrants.

TOP TWENTY HOLDINGS

A brief description of the twenty largest holdings in companies is as follows:

Northgate Information Solutions

Northgate Information Solutions is a leading supplier of applications and outsourcing solutions to the public sector, HR and corporate markets, with over 1,000 customers and 30 years' experience. Headquartered in Hemel Hempstead, Northgate has over 900 staff operating throughout the UK and in California, USA. In January 2004 Northgate announced the acquisition of the complementary Rebus HR Group for £150 million.

Country	United Kingdom
Valuation	£10,049,000
% of total assets	2.9
% of issued share capital held	6.1

Amstrad

Amstrad designs and manufactures consumer electronic products, notably the 'e-m@iler' and set-top satellite decoders for Sky including the new Sky Plus box. The 'e-m@iler' combines the functionality of a telephone with e-mail access. The new Sky Plus box targets the growth area of Personal Video Recorders (PVD). Its products are sold primarily in the UK.

Country	United Kingdom
Valuation	£8,702,000
% of total assets	2.5
% of issued share capital held	8.5

Plasmon

Plasmon provides the industry's most comprehensive line of automated storage libraries, optical drives, disks, library storage management software and associated support services. Technologies include 5.25" Magneto Optical, 12-inch TrueWORM, LTO-Ultrium/AIT Tape and 120mm DVD/CD technology. Plasmon has developed Ultra Density Optical (UDO) the next generation 5.25" professional optical storage technology, released during the latter stages of 2003. It is a convergent technology that delivers the performance of 5.25" MO, the longevity of 12-inch WORM, and the cost effectiveness of DVD.

Country	United Kingdom
Valuation	£8,442,000
% of total assets	2.4
% of issued share capital held	6.2

Imagination Technologies Group

Imagination Technologies develops 2D/3D graphics, digital signal processing, video and audio technologies and licenses this IP (Intellectual Property) to global semiconductor and system companies. These technologies are used in multimedia devices. Imagination has been a pioneer in developing Digital Audio Broadcasting Technology (DAB).

Country	United Kingdom
Valuation	£8,368,000
% of total assets	2.4
% of issued share capital held	6.8

SurfControl

The Group's principal activity is the development of web and e-mail filtering and content management software. Its main brands were SurfControl Superscout which was sold to the corporate market and CyberPatrol which was directed at the education and home markets. SurfControl is now the single brand for all server based web and e-mail filtering products sold into the corporate and education markets. CyberPatrol is the brand for client-based products sold into the home market.

Country	United Kingdom
Valuation	£7,317,000
% of total assets	2.1
% of issued share capital held	3.2

Telemetrix

The Group's principal activities are carried out through two divisions. Zetex supplies analog semiconductor solutions for signal and power management, with particular emphasis on portable solutions. Trend offers broadband test equipment and support services to the digital communications market. Analog semiconductors accounted for 64% of 2003 revenues and broadband test equipment and enterprise network services, 36%.

Country	United Kingdom
Valuation	£6,397,000
% of total assets	1.8
% of issued share capital held	3.6

Gresham Computing

Gresham provides software for real time banking transactions and storage management. 'Real Time Nostro', jointly developed with Cable and Wireless, offers secure access to Nostro account information, providing real-time information that banks need to improve their liquidity management, reduce settlement risk and deliver value-added services. 'Real Time Integrated Banking' (RIBS) is a full-featured, end-to-end application providing complete transaction and customer self-service solutions for financial services providers. In addition to software products, Gresham provides bespoke software and consultancy services to over four hundred customers.

Country	United Kingdom
Valuation	£6,170,000
% of total assets	1.8
% of issued share capital held	3.8

TOP TWENTY HOLDINGS *continued*

Detica Group

Detica Group Plc is a specialty provider of business consulting, systems design and implementation services. The Company focuses on helping organizations harness technology to identify, attract, develop and retain customers through effective integration with business processes. The Company is also a provider of information and systems security services, notably in the UK National Security market. Detica aims to combine independent advice with the design and delivery of effective solutions.

Country	United Kingdom
Valuation	£5,381,000
% of total assets	1.5
% of issued share capital held	3.9

Acal

Acal is a leading value-added distributor providing specialist design-in, sales and marketing services for international suppliers in the fields of Electronic Components, IT Products, IT Parts Services and Industrial Controls. The Group, which has 24 principal trading companies, eleven in Continental Europe, eleven in the UK, one in the USA and one in Australia, employs approximately 980 people with particularly strong technical sales and marketing expertise.

Country	United Kingdom
Valuation	£5,250,000
% of total assets	1.5
% of issued share capital held	4.0

Linx Printing Technologies

Linx has leading global positions in the two main non-contact coding and marking technologies: continuous inkjet printing and laser coding. Linx continuous inkjet printers operate at extremely high production-line speeds, directing 80,000 drops of fast-drying ink per second on all sorts of surfaces, e.g. Linx continuous inkjet printers can print a sell-by date on up to 2,000 beverage cans per minute. As it is permanent, laser coding is favoured by makers of prestige products, such as champagne, where it helps protect against counterfeiting.

Country	United Kingdom
Valuation	£5,213,000
% of total assets	1.5
% of issued share capital held	9.9

Incisive Media

Incisive are a business-to-business magazine publisher in the financial, insurance and photography sectors. Titles include 'Investment Week', 'Risk', 'Insurance Age' and 'Waters'. Incisive also have a strong events business, enhanced by their May 2003 acquisition of Risk Waters.

Country	United Kingdom
Valuation	£4,882,000
% of total assets	1.4
% of issued share capital held	5.0

Alphameric

Alphameric plc is engaged in the supply of solutions to retail, leisure and financial organizations worldwide. With skills in a wide range of areas including consultancy, software development, business intelligence, project management, installation, support services and help desks, the Company provides solutions to organizations throughout Europe and the United States. Alphameric Retail offers products that can form part of a fully integrated system or operate independently in the areas of head office, in-store and business intelligence. Alphameric Leisure and Bookmaking supplies integrated systems and services covering the operational requirements of United Kingdom Licensed Betting Offices, including centrally controlled Display, Slip Capture and EPoS Systems. Alphameric Finance provides solutions covering the digital distribution of corporate information via satellite to the provision of private television networks for financial organizations.

Country	United Kingdom
Valuation	£4,829,000
% of total assets	1.4
% of issued share capital held	4.7

Diploma

Diploma is a group of specialised distribution businesses serving industries with long-term growth potential and with the opportunity for sustainable superior margins through the quality of customer service, depth of technical support and value-adding activities. The three divisions are life sciences, seals and components, and interconnect.

Country	United Kingdom
Valuation	£4,730,000
% of total assets	1.4
% of issued share capital held	4.0

Alba

Alba's principal activities are the manufacture, supply, import, export and distribution of audio, video, telecommunications and consumer electronic equipment. It also supplies giftware product ranges to the high street and supermarkets. It has a number of brands in its portfolio including Alba, Bush and Goodmans.

Country	United Kingdom
Valuation	£4,699,000
% of total assets	1.3

TOP TWENTY HOLDINGS *continued*

Taylor Nelson Sofres

Following the acquisition of NFO in July 2003 for \$425m, TNS is the third largest market information group in the world. It operates an international network in more than 50 countries and provides market information services in over 80 countries to national and multi-national organisations. Its principal areas of activity are Consumer, Media, Business Services, Healthcare and IT/Telecoms. Approximately half of TNS' revenue is derived from continuous research projects and access panels, bolstered by the NFO acquisition, with the balance derived from customised research. In H1 2003 TNS generated 23% of its revenues in the UK, 18% in France, 29% in Rest of Europe, 22% in the US and 8% in Asia Pacific.

Country	United Kingdom
Valuation	£4,588,000
% of total assets	1.3

THUS Group

THUS are a leading internet, data, interactive and telecom services provider in the UK and the Netherlands operating under the Thus and Demon brands. THUS offer both consumer and business services, specifically web hosting, web design, leased lines and e-commerce.

Country	United Kingdom
Valuation	£4,538,000
% of total assets	1.3

Euromoney Institutional Investor

The Group's principal activity is business publishing that focuses primarily on international finance. It publishes more than 100 magazines, newsletters and journals as well as surveys, directories, books and maps. It also runs conferences, seminars and training courses and provides electronic business information through its capital market databases and emerging markets information services. Financial publishing accounted for 37% of fiscal 2003 revenues, conferences and seminars 22%, business publishing 20%, training 13% and databases and information services 9%.

Country	United Kingdom
Valuation	£4,427,000
% of total assets	1.3

SDL

SDL provide multilingual website globalisation software in addition to support databases, training and translation services. Its 'Realtime' and 'Workflow' are leading solutions in this field. Its comprehensive and integrated offerings include multilingual content management solutions, real-time translation technologies, translation memory and a full range of internationalization and localization services.

Country	United Kingdom
Valuation	£4,225,000
% of total assets	1.2
% of issued share capital held	9.2

Biotrace International

The Group's principal activities are the development, manufacture, market and sale of a range of instruments and reagent kits for rapid hygiene and microbiological testing, in the food, industrial, defence and healthcare markets. The Group provides sophisticated equipment for civil defence and for the protection of military personnel against such threats. Industrial accounted for 58% of 2002 revenues, civil defence and military 18% and healthcare 24%. The acquisition of US-based International BioProducts Inc. in late 2003 has significantly expanded their product and client lists.

Country	United Kingdom
Valuation	£4,025,000
% of total assets	1.2
% of issued share capital held	9.2

Anite Group

Anite offers software solutions, managed services, solutions consultancy and project services. It focuses on certain vertical markets including Government, finance, travel, international and telecoms. Anite have 1,500 consultants working in Germany, Austria, France, UK, Italy, Finland, USA and Asia-Pacific regions.

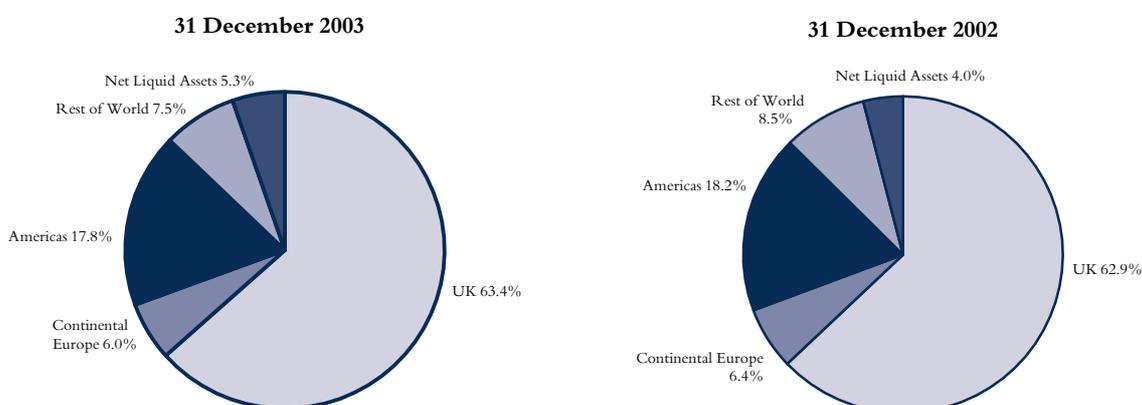
Country	United Kingdom
Valuation	£3,535,000
% of total assets	1.0

Note: A figure is presented for % of issued share capital held only if greater than 3%.

CLASSIFICATION OF INVESTMENTS

Classification	Continental					2003 Total %	2002 Total %
	UK %	Europe %	Americas %	Japan %	Asia Pacific %		
EQUITIES: (including convertible and preference stock)							
INDUSTRIALS	6.6	0.6	2.8	0.4	2.0	12.4	11.6
Electronic and electrical equipment	6.6	0.6	2.8	0.4	2.0	12.4	11.6
CONSUMER GOODS	1.2	–	0.1	–	–	1.3	1.8
Healthcare and pharmaceuticals	1.2	–	0.1	–	–	1.3	1.8
SERVICES AND UTILITIES	24.3	2.5	2.6	–	2.0	31.4	38.4
Distributors	4.2	–	0.5	–	0.3	5.0	7.7
Leisure and hotels	0.9	–	0.1	–	–	1.0	0.9
Media and entertainment	15.1	2.1	0.7	–	1.6	19.5	21.8
Support services	2.3	0.4	1.3	–	–	4.0	5.5
Telecommunication services	1.8	–	–	–	0.1	1.9	2.5
FINANCIALS	0.1	0.1	–	–	–	0.2	0.2
Speciality and other finance	0.1	–	–	–	–	0.1	0.1
Investment companies	–	0.1	–	–	–	0.1	0.1
INFORMATION TECHNOLOGY	31.2	2.8	12.3	0.2	2.9	49.4	44.0
Information technology hardware	7.9	1.9	6.3	0.2	1.7	18.0	12.7
Software and computer services	23.3	0.9	6.0	–	1.2	31.4	31.3
TOTAL EQUITIES (including convertible and preference stock)	63.4	6.0	17.8	0.6	6.9	94.7	
Total equities – 2002 (including convertible and preference stock)	62.9	6.4	18.2	0.5	8.0		96.0
NET LIQUID ASSETS	5.2	–	–	–	0.1	5.3	4.0
TOTAL ASSETS (before deduction of bank loans)	68.6	6.0	17.8	0.6	7.0	100.0	
Total assets – 2002	66.3	6.4	18.2	0.5	8.6		100.0
BANK LOANS	–	–	(7.6)	(0.8)	–	(8.4)	(11.2)
EQUITY SHAREHOLDERS' FUNDS	68.6	6.0	10.2	(0.2)	7.0	91.6	
Equity shareholders' funds – 2002	66.3	6.4	8.5	(1.0)	8.6		88.8
Number of equity investments (including convertible and preference stock)	108	23	80	4	28	243	244

GEOGRAPHICAL SPREAD OF INVESTMENTS



DETAILED LIST OF INVESTMENTS

AT 31 DECEMBER 2003

Classification	Name	Market value £'000	%
UNITED KINGDOM			
Electronic and electrical equipment	Alba	4,699	
	Amstrad	8,702	
	†Innovision Research & Technology	2,663	
	Intelek	600	
	Linx Printing Technologies	5,213	
	†OMG	1,167	
		23,044	6.6
Healthcare and pharmaceuticals Distributors	Biotrace International	4,025	
	Abacus Group	1,669	
	Acal	5,250	
	Deltron Electronics	780	
	Diploma	4,730	
	†Netcentric Systems	21	
	Northamber	2,231	
		14,681	4.2
Leisure and hotels	†Cyberes	343	
	†TradingSports Exchange Systems	240	
	†ukbetting	2,515	
		3,098	0.9
Media and entertainment	Aegis Group	1,975	
	†Alibi Communications	21	
	†Ambient	2,226	
	Applied Optical Technologies	1,928	
	Bloomsbury Publishing	2,605	
	†Campus Media	127	
	§Carlton Communications	508	
	Chime Communications	2,949	
	†Eckoh Technologies	3,026	
	Euromoney Institutional Investor	4,427	
	†Expomedia Group	554	
	Incisive Media	4,882	
	Informa Group	2,885	
	Johnston Press	1,164	
	Metal Bulletin	2,009	
	Music Choice Europe	825	
	§Quarto Group	2,839	
	Scottish Radio Holdings	3,402	
	Sterling Publishing Group	674	
	SMG	2,204	
Taylor & Francis Group	465		
Taylor Nelson Sofres	4,588		
†Ten Alps Communications	982		
†UBC Media Group	1,812		
†WILink	1,584		
Wilmington Group	2,344		
†Zyzygy	22		
		53,027	15.1
Support services	Harvey Nash Group	653	
	†hotgroup	1,137	
	†Ingenta	474	
	Lorien	1,591	
	MICE Group	1,817	
	‡†Mondas	909	
	PSD Group	461	
	†Thomson Intermedia	928	
	†Xpertise Group	232	
		8,202	2.3

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2003

Classification	Name	Market value £'000	%
Telecommunication services	Easynet Group	1,645	
	THUS Group	4,538	
		6,183	1.8
Speciality and other finance	*Adaptive Venture Managers	–	
	*Herald Investment Management Ltd	251	
	*HIML Jersey Ltd	–	
		251	0.1
Information technology hardware	CML Microsystems	674	
	*‡ID Data 7% Convertible Secured Loan Notes 2008	1,000	
	Imagination Technologies Group	8,368	
	Plasmon	8,442	
	Roxboro	813	
	Sandex	750	
	Telemetrix	6,397	
	*UbiNetics	339	
Vislink	972		
		27,755	7.9
Software and computer services	Alphameric	4,829	
	Alterian	2,363	
	Anite Group	3,535	
	†Atlantic Global	276	
	†Clarity Commerce Solutions	822	
	Clinical Computing	159	
	†DataCash Group	669	
	Detica Group	5,381	
	DIAGONAL	476	
	Electronic Data Processing	1,218	
	†Empire Interactive	384	
	†Fayrewood	2,634	
	Gresham Computing	6,170	
	†Harrier Group	509	
	ICM Computer Group	3,040	
	†i-documentsystems Group	1,335	
	†IMS Maxims	156	
	Innovation Group	2,697	
	†InTechnology	408	
	Intec Telecom Systems	1,950	
	†Interactive Digital Solutions	440	
	†Intelligent Environments Group	690	
	†IQ-Ludorum	67	
	†Manpower Software	571	
	Marlborough Stirling	3,146	
	Microgen	3,372	
	†NetBenefit	624	
	Northgate Information Solutions	10,049	
	*‡†OneClickHR	488	
	†Patsystems	1,120	
	Retail Decisions	1,530	
	RM	894	
SDL	4,225		
†Smart Approach Group	275		
ServicePower Technologies	573		
†StatPro Group	496		
*‡StatPro Variable	400		
SurfControl	7,317		
Synstar	2,424		
VEGA Group	350		
Xansa	1,309		
†Zoo Digital Group	2,350		
		81,721	23.3
	TOTAL UNITED KINGDOM EQUITIES	221,987	63.4

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2003

Classification	Name	Market value £'000	%		
CONTINENTAL EUROPE					
Electronic and electrical equipment	Logitech International	Switzerland	2,175	0.6	
Media and entertainment	Impresa SGPS	Portugal	739		
	NRJ Group	France	2,953		
	PubliGroupe	Switzerland	732		
	Roularta Media Group	Belgium	746		
	United Internet	Germany	2,122		
			7,292	2.1	
Support services	Teleplan International	Netherlands	1,339	0.4	
Investment companies	Inspire Investments	Israel	238	0.1	
Information technology hardware	LPKF Laser & Electronics	Germany	354		
	Melexis	Belgium	1,045		
	Micronas Semicon.	Switzerland	558		
	Icos Vision Systems	Belgium	2,550		
	Nera	Norway	904		
	Sez Reg	Switzerland	576		
	Suess Microtec	Germany	715		
			6,702	1.9	
Software and computer services	*Atex Media Solutions	Norway	–		
	Iona Technologies	Ireland	840		
	Ementor ASA	Norway	159		
	Horizon Technology Group	Ireland	296		
	Plaut	Germany	373		
	Profdoc	Norway	787		
	SkillSoft	Ireland	193		
	Unit 4 Agresso	Netherlands	618		
			3,266	0.9	
TOTAL EUROPEAN EQUITIES			21,012	6.0	
AMERICAS					
Electronic and electrical equipment	M-Systems Flash Disk	Pioneers	3,204		
	Power Integrations		374		
	Pemstar		551		
	Quantum Fuel Sys techs		337		
	Remec		1,570		
	‡Reptron Electronics		50		
	Rockford		290		
	Silicon Image		640		
	Sonic solutions		1,282		
	Sipex		711		
	Varian		582		
				9,591	2.8
	Healthcare and pharmaceuticals Distributors	SonoSite		480	0.1
Black Box			1,081		
Agilysys			374		
Jaco Electronics			346		
			1,801	0.5	
Leisure and hotels	Pegasus Sltn		351	0.1	
Media and entertainment	Cinar	Canada	161		
	Emmis Communications		604		
	Mediacom Communications		290		
	Multivision Communications	Canada	–		
	SBS Broadcast		546		
	Scholastic		951		
			2,552	0.7	
Support services	Computer Horizons		285		
	First Consulting Group		629		
	Netsolve		68		
	OneSource Information Services		2,306		
	Wireless Facilities		1,245		
			4,533	1.3	

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2003

Classification	Name	Market value £'000	%
Information technology hardware	Adaptec	1,234	
	Asyst Technologies	1,830	
	Artisan Components	458	
	ATMI	259	
	Brooks Automation	530	
	Ceva	1,152	
	Computer AccessTechnology Corp	481	
	Computer Network Technology	214	
	Credence Systems	735	
	Integrated Device Technology	959	
	Infocus	541	
	Kopin	375	
	Micros Systems	606	
	Moog	2,759	
	MRV Communications	1,975	
	Nova Measuring Instruments	530	
	On Track innovations	1,782	
	Powerwave Technologies	778	
	Rainbow Technologies	629	
	Rimage	265	
	RIT Technologies	225	
	Simpletech	841	
	Skyworks Solutions	1,336	
	Spectralink	857	
Stratex Networks	528		
Stratos International	265		
		22,144	6.3
Software and computer services	Advanced Digital Information	1,075	
	Advent Software	974	
	At Road	1,040	
	Borland Software	544	
	Captaris	1,067	
	Carreker	998	
	Centra Software	993	
	Chordiant Software	1,096	
	Datastream Systems	395	
	EPIQ Systems	861	
	HPL Technologies	7	
	I-many	288	
	INVU	510	
	Kronos	1,162	
	LogicVision	226	
	Macrovision	1,640	
	Manhattan Associates	494	
	Mentor grahics	406	
	PDF Solutions	791	
	Pegasystems	483	
	Retalix	1,709	
	RSA Security	1,592	
	Seachange International	817	
	Serena Software	512	
Sourcecorp	569		
SPSS	199		
THQ	519		
		20,967	6.0
	TOTAL AMERICAN EQUITIES	62,419	17.8
JAPAN			
Electronic and electrical equipment	Yamaichi Electronics	698	
	Yokowo	653	
		1,351	0.4
Information technology hardware	Enplas	527	
	Koha	261	
		788	0.2
	TOTAL JAPANESE EQUITIES	2,139	0.6

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2003

Classification	Name	Market value £'000	%	
ASIA PACIFIC				
Electronic and electrical equipment	Advantech Co	Taiwan	397	
	Altek	Taiwan	844	
	Autron	Singapore	1,125	
	Chroma ATE	Taiwan	506	
	Hyundai Autonet	Korea	346	
	Kingboard Chemicals Holdings	Hong Kong	738	
	Orient Power	Hong Kong	181	
	Pentex	Singapore	158	
	Seksun Corp	Singapore	1,332	
	Uchi Technologies	Malaysia	825	
	Venture Corp	Singapore	526	
	XAC Automation	Taiwan	147	
			7,125	2.0
Distributors	Jadason Enterprises	Singapore	972	0.3
Media and entertainment	Health Communications Network	Australia	1,691	
	Informatics Holdings	Singapore	1,254	
	Star Publications	Malaysia	2,543	
		5,488	1.6	
Telecommunication services	Smartone Telecom	Hong Kong	343	0.1
Information technology hardware	GES International	Singapore	525	
	Globetronics Technology	Malaysia	875	
	Hana Microelectronics	Thailand	1,036	
	Huan Hsin Holdings	Singapore	966	
	KH Vatec	Korea	561	
	PKL	Korea	499	
	Surface Mount Technology	Singapore	1,421	
		5,883	1.7	
Software and computer services	Catuity	Australia	787	
	Infomedia	Australia	484	
	Reckon	Australia	767	
	Solution 6	Australia	2,091	
		4,129	1.2	
TOTAL ASIA PACIFIC EQUITIES			23,940	6.9
	Value of equity stocks	328,296		
	Convertible preference stocks having an element of equity	1,083		
	Convertible loan stocks having an element of equity	2,118		
TOTAL EQUITY INVESTMENTS		331,497	94.7	
NET LIQUID ASSETS		18,712	5.3	
TOTAL ASSETS AT MARKET VALUE (before deduction of bank loans)		350,209	100.0	

(† denotes holding listed on AIM)

(* denotes unlisted security)

(± denotes holding wholly or partly in convertible loan stock)

(§ denotes holding wholly or partly in preference loan stock)

LONG TERM RECORD

CAPITAL								
At 31 December	Total assets £'000	Bank loans £'000	Equity shareholders' funds £'000	Net asset value per share p	Diluted net asset value per share† p	Share price p	Warrant price p	(Discount)/ premium‡ %
□ Inception	64,170	—	64,170	98.72	98.72	90.90#	45.50	(7.9)
1994	60,823	—	60,823	93.57	93.57	91.00	38.00	(2.7)
*1995	89,689	—	89,689	137.98	132.36§	127.00	55.00	(4.0)
1996	130,055	—	130,055	156.89	150.88§	136.00	61.00	(9.9)
1997	147,424	—	147,424	177.84	171.80	136.00	60.50	(20.8)
1998	170,982	—	170,982	206.25	201.70	161.50	77.50	(19.9)
1999	432,620	(3,343)	429,277	517.44	494.22	511.00	411.00	3.4
2000	378,607	(3,233)	375,374	447.55	431.43	491.00	382.50	13.8
2001	275,624	(2,892)	272,732	322.94	314.53	306.00	212.50	(2.7)
2002	199,900	(22,310)	177,590	210.23	206.68	177.00	79.00	(14.4)
2003	350,209	(29,325)	320,884	365.44	365.44	325.25	—	(11.0)

* Restated for change in accounting policy to account for income on an xd basis.

† The diluted net asset value per ordinary share figures have been calculated in accordance with FRS14 (see note 18, page 37).

‡ (Discount)/premium is the difference between Herald's quoted share price and its underlying diluted net asset value (FRS14).

§ The diluted net asset values at 31 December 1995 and 1996 have been restated with the adoption of FRS14. The previously reported fully diluted net asset values were 131.65p and 149.45p respectively.

□ Inception date 16 February 1994, 100p was shareholders' subscription price before launch costs of 1.3p.

90.9p is the capital gains tax (CGT) base subscription price for shareholders adjusting for warrants which were issued on a 1 for 5 basis. The CGT base for the warrant is 45.5p.

REVENUE						GEARING RATIOS	
Period to 31 December	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share net** p	Dividend ordinary share net p	Expense ratio†† %	Actual gearing‡‡	Potential gearing§§
1994	1,286	439	0.68	0.50	0.82	85	100
*1995	1,968	780	1.20	0.65	1.32	92	100
1996	2,897	1,035	1.32	0.81	1.46	89	100
1997	3,185	1,118	1.35	0.85	1.29	92	100
1998	3,845	1,134	1.37	0.90	1.36	94	100
1999	3,658¶	717	0.86	0.85	0.95	93	101
2000	6,508	778	0.93	0.85	1.40	86	101
2001	4,728	1,145	1.36	0.85	1.07	84	101
2002	3,539	627	0.74	0.85	1.21	108	113
2003	3,882	276	0.32	0.30	1.20	103	109

* Restated for change in accounting policy to account for income on an xd basis.

** The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 8, page 34).

†† Ratio of total operating costs against average shareholders' funds.

‡‡ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (excluding convertibles) divided by shareholders' funds.

§§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.

¶ Restated for the adoption of FRS16 "Current Tax".

CUMULATIVE PERFORMANCE								
At 31 December	Diluted net asset value per share†	Share price	Benchmark	Hoare Govett Smaller Cos Index	Russell 2000 Technology Index	Earnings per ordinary share	Dividend per ordinary share net	Retail price index
Inception	100	100	100	100	—	—	—	—
1994	95	100	84	83	—	100	100	100
1995	134	140	95	93	100¶¶	176	130	103
1996	153	150	109	107	98	194	162	106
1997	174	150	126	113	103	199	170	110
1998	204	178	124	104	113	201	180	113
1999	501	562	213	158	240	126	170	115
2000	437	540	186	154	154	137	170	118
2001	319	337	157	130	123	200	170	119
2002	209	195	104	97	60	109	170	122
2003	370	358	147	134	88	47	60	126

all figures have been rebased to 100.

Compound Annual Returns

5 year	12.6%	15.0%	3.5%	5.2%	(5.0)%	(25.2)%	(19.7)%	2.2%
From inception	14.0%	13.6%	3.9%	3.0%	(1.6)%	(8.0)%	(5.5)%	2.6%

¶¶ Index at 9 April 1996, being the first date funds were first available for international investment.

Past performance is no guarantee of future performance.

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2003.

Business Activity

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2002, subject to any matters that may arise from any subsequent enquiry by the Inland Revenue into the Company's tax returns. In the opinion of the Directors the Company has conducted its affairs so as to enable it to continue to obtain such approval and it will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

The Company is an investment company within the meaning of Section 266 of the Companies Act 1985.

Investment Policy and Objectives

The objective of the Company's management is to secure an attractive level of overall return for its shareholders primarily from capital growth but also from income over the life of the Company. The Company spreads its risks across a diversified portfolio of quoted securities in smaller companies which specialise in products, services or applications in the communications and multimedia sectors. The Company has certain specific investment guidelines, including that investee companies will have an equity market capitalisation of up to approximately £750 million at the time of initial investment. Securities acquired by the Company will normally be quoted on the Official List (which includes the Alternative Investment Market) of the London Stock Exchange or equivalent markets overseas.

At the Annual General Meeting held on 16 April 2003 shareholders approved the amendment to the Articles of Association of the Company increasing the maximum level of gearing from 20% to 30% of total capital and reserves. At 31 December 2003 borrowings comprised yen 551,550,000 (£2.9 million) and US\$47,350,000 (£26.4 million).

The Company's policy is to adopt a long-term approach to investment.

Results and Dividend

The net revenue after tax for the period was £276,000 (2002 – £627,000).

The Directors recommend a dividend of 0.30p per Ordinary share for the year ended 31 December 2003, which, if approved at the Annual General Meeting, will be payable on 20 April 2004 to holders registered on 26 March 2004. The payment will amount to £263,000 and the transfer to reserves will therefore be £13,000.

The net asset value (NAV) of the Company at 31 December 2003 represented a value of 365.44p per Ordinary share. This represented an increase of 73.8% during the year (diluted (FRS14) 76.8%) and a rise of 270.2% since the date of committal of funds (16 February 1994) after allowing for launch expenses of 1.3p per share.

Investment Report and Outlook

The Chairman's Statement and the Investment Manager's Report incorporate a review of the highlights of the year to 31 December 2003, and the outlook for the Company.

The Board

Other than as declared in the following paragraph and in the section headed "Management and Administration" below, your Board has complete independence from the investment manager, all its members being non-executive. All have been Directors for the whole period under review.

Other than in respect of Mr Boase's shareholding of 4.94% of the Ordinary share capital of the investment management company, there were no contracts subsisting during or at the end of the year in which a Director was or is materially interested.

DIRECTORS' REPORT *continued*

The Board *continued*

The Directors at the year end, and their interests in the Company, all of which are beneficially owned, were as follows:

Name	Number of Ordinary Shares		Number of Warrants
	2003	2002	2002
Martin Boase	50,000	50,000	–
Clay Brendish	–	–	–
Justin Dukes	1,158	1,158	–
Colin McCarthy	9,112	8,112	1,000
Douglas McDougall	200,000	150,000	–
Clive Parritt	9,649	8,649	1,000

Mr M Boase and Mr C M Brendish retire by rotation and, being eligible, are recommended by the Board for re-election.

Mr C M McCarthy will retire from the Board at the conclusion of the Annual General Meeting.

There have been no changes intimated in the Directors' interests up to 19 February 2004.

Management and Administration

For the entire year under review the management of the Company was contracted to Herald Investment Management Limited. HIML is authorised and regulated by the Financial Services Authority.

The senior director of HIML with prime responsibility for the management of Herald Investment Trust is Katie Potts, who is also a substantial shareholder of HIML. HIML was employed initially under a three-year contract. This period has now expired and the contract is subject to 12 months' notice. HIML is remunerated at a monthly rate of 0.08333% of the Company's net asset value.

At 31 December 2003 the Company was the beneficial owner of 13.83% of the Ordinary share capital of HIML.

Administration of the Company and its investments is contracted by HIML to Baillie Gifford & Co., who also act as Company Secretary.

Custody of investments is contracted to The Bank of New York.

The Board considers the Company's investment management and secretarial arrangements for the Company on an ongoing basis and a formal review will be conducted annually. The Board considers, amongst others, the following topics in its review: investment performance in relation to the investment policy and strategy; the continuity of personnel managing the assets and reporting to the Board; the level of service provided in terms of the accuracy and timeliness of reports to the Board and the frequency and quality of both verbal and written communications with shareholders. Following the most recent review the Board is of the opinion that the continued appointment of Herald Investment Management Limited as investment manager, on the terms agreed, is in the best interests of shareholders.

Significant Shareholdings

At 19 February 2004 the Directors have been notified of the following shareholdings comprising 3% or more of the issued share capital of the Company:

Name	Ordinary Shares	% of issue
Newton Investment Management Limited	11,313,114	12.9%
The Royal Bank of Scotland plc	5,451,486	6.2%
Legal & General Group plc	2,731,180	3.1%
Windsor Life	2,840,000	3.2%

Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business. The Company negotiates with its suppliers the terms on which business will take place and abides by such terms.

The Company did not have any trade creditors at 31 December 2003.

DIRECTORS' REPORT *continued*

Auditors

The Auditors, Ernst & Young LLP, are willing to continue in office and in accordance with sections 385 and 390A of the Companies Act 1985 resolutions concerning their reappointment and remuneration will be submitted to the Annual General Meeting.

Annual General Meeting

At the Annual General Meeting of the Company to be held on 14 April 2004 the following resolutions will be proposed as special business.

Continuation of the Company

In terms of the Articles of Association, the Directors are obliged to give shareholders the opportunity to consider the future of the Company at this year's Annual General Meeting and at the AGMs to be held in every third year thereafter. Accordingly, an ordinary resolution, Resolution 8 in the Notice of Annual General Meeting, is being proposed at the Annual General Meeting of the Company to be held on 14 April 2004 (and will be proposed at every third subsequent Annual General Meeting) to the effect that the Company should continue as an investment trust.

Increase in cap on Directors' Fees

Article 87 of the Company's Articles of Association permits the cap on Directors' fees to be increased by means of an ordinary resolution. Resolution 9 in the Notice of Annual General Meeting is such a resolution. Article 87 currently provides that the aggregate amount of Directors' fees shall not exceed £70,000. The current Directors' fees total £70,000 and consequently there is no scope for increase. With the extra burdens placed on directors nowadays it is likely that fees will generally continue to rise. Accordingly, it is proposed that, pursuant to Resolution 9, the maximum aggregate amount of fees paid to the Directors be increased to £100,000 per annum.

Authority to Repurchase the Company's Ordinary Shares

At the Company's Annual General Meeting held on 16 April 2003 it was resolved that the Company be authorised to purchase in the market up to 12,662,824 Ordinary shares (14.99% of its Ordinary share capital in issue at that time). Between the date of that Annual General Meeting and the date of this notice no Ordinary shares have in fact been bought back by the Company. The Board continues to believe, however, that the ability of the Company to purchase its own Ordinary shares in the market will potentially benefit all shareholders of the Company. The repurchase of Ordinary shares at a discount to the underlying net asset value ("NAV") should enhance the NAV per Ordinary share of the remaining shares and may also enable the Company to address more effectively any imbalance between supply and demand for the Company's Ordinary shares.

Accordingly, the Directors are now recommending in Resolution 10 that this authority to purchase the Company's own Ordinary shares should be renewed and should now expire at the Company's Annual General Meeting to be held in 2005. Authority will be sought to purchase up to 14.99% of the Company's Ordinary shares in issue at the date of the passing of the resolution (the maximum permitted under the Listing Rules of the UK Listing Authority) at a price that is not less than 25p per share (the nominal value of each share) and not more than 5% above the average middle-market quotation for the five business days preceding the day of purchase. The authority being sought, the full text of which can be found in Resolution 10 in the Notice of Annual General Meeting, will last until the date of the Annual General Meeting in 2005. The decision as to whether the Company repurchases any shares will be at the absolute discretion of the Board and will only be considered when it is in the interests of the Company and its shareholders as a whole. It is the intention that purchases will only be made at a discount to net asset value.

The Directors consider that the continuation of the Company and the implementation of the facility to repurchase the Company's own Ordinary shares is in the interests of shareholders as a whole and unanimously recommend all holders to vote in favour of these resolutions by completing and returning the enclosed form of proxy. The proxy form should be returned to the Company's Registrar as soon as possible but in any event so as to arrive no later than 48 hours before the time of the Annual General Meeting.

By order of the Board

Baillie Gifford & Co.

Secretaries

20 February 2004

DIRECTORS' REMUNERATION REPORT

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 27.

Remuneration Committee

The Company has six Directors, all of whom are non-executive (see page 4). There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. The Company Secretary, Baillie Gifford & Co, provides advice when the Board considers the level of Directors' fees.

Policy on Directors' fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size. It is intended that this policy will continue for the year ended 31 December 2004 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association, which currently stands at £70,000. Shareholders' approval to increase the aggregate limit to £100,000 will be sought at the forthcoming Annual General Meeting (see Resolution No. 9 on page 39). Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The Board carried out a review of the level of Directors' fees in 2002, and concluded that the fees should be increased from £13,200 to £15,000 for the Chairman and from £9,900 to £11,000 per Director. The increase being effective from such date that would ensure that Directors' fees in aggregate did not exceed the £70,000 limit imposed by the Company's Articles.

Directors' service contracts

It is the Board's policy that none of the Directors have a service contract. Mr C M Brendish and Mr D C P McDougall were provided with appointment letters. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

	Date of appointment	Due date for re-election
Martin Boase	11 January 1994	AGM April 2004
Clay Brendish	23 July 2001	AGM April 2004
Justin Dukes	11 January 1994	AGM in 2006
Colin McCarthy	11 January 1994	retires AGM April 2004
Douglas McDougall	13 February 2002	AGM in 2005
Clive Parritt	10 December 1993	AGM in 2005

DIRECTORS' REMUNERATION REPORT *continued*

Company performance

The graph below compares, for the five financial years ending 31 December 2003, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes, as it is the best measure of performance for UK listed companies.



Past performance is no guarantee of future performance.

Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2003 £	Fees 2002 £
Directors who served during the year:		
Martin Boase (Chairman)	15,000	14,408
Clay Brendish	11,000	10,638
Justin Dukes	11,000	10,638
Colin McCarthy	11,000	10,638
Douglas McDougall (appointed 13 February 2002)	11,000	9,472
Clive Parritt	11,000	10,638
	<u>70,000</u>	<u>66,432</u>
Past Directors:		
Timothy Abell (retired 17 April 2002)	—	2,902
	<u>70,000</u>	<u>69,334</u>

Sums paid to third parties (audited)

The Directors' fees payable to Mr C Brendish, Mr J P Dukes and 50% of those payable to Mr C A Parritt were paid to Technology Management Services, ECIC Management Limited and The Business Exchange PLC respectively. The payment was for making their services available as Directors of the Company.

Approval

The Directors' Remuneration Report on pages 22 to 23 was approved by the Board of Directors on 11 February 2004 and signed on its behalf by

Martin Boase
Chairman

CORPORATE GOVERNANCE

Code of Best Practice

The Directors have considered the principles set out in the Combined Code issued in 1998 (“the Combined Code”) and can confirm that the Company has, except where otherwise stated, complied with all material aspects of the Combined Code throughout the year.

The Principles of Good Governance

The Board

The Board’s regular meetings take place every quarter. There is no formal schedule of matters reserved for Board approval. Such a schedule would be inappropriate since the Board decides on all aspects of the activities of the Company including investment policy, borrowings, treasury matters and dividend policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The Board is comprised entirely of non-executive Directors who, except as disclosed in the Directors’ Report, are independent of the managers. The executive responsibilities for investment management and administration have been delegated to Herald Investment Management Limited and Baillie Gifford & Co. respectively, and in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer. Martin Boase was appointed Chairman at inception, as the Board is small there is no recognised senior independent member. The Directors all have appropriate business and financial experience with which to conduct the business of the Board. Information on the Board members can be found on page 4.

Given the non-executive nature of the Board a separate nomination committee has not been established. It is the view of the Board that the appointment of new Directors should be a matter for consideration by the Board as a whole. Under the provisions of the Company’s Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that the Directors retire by rotation and submit themselves for re-election at least once every three years.

There is an agreed procedure for Directors to seek independent professional advice if necessary and at the Company’s expense. Directors’ and others’ liability insurance cover is held by the Company in respect of the Directors.

Remuneration

Since all directors are non-executive, the Company is not required to comply with principles B.1 to B.3 of the Combined Code in respect of executive Directors’ remuneration. The Company’s policy on remuneration is set out in the Directors’ Remuneration Report on pages 22 and 23.

Internal Control and Risk Management

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management have been delegated to Herald Investment Management Limited and Baillie Gifford & Co., as detailed in the Directors’ Report. The Board acknowledges its responsibilities to supervise and control the discharge by the managers and secretaries of their obligations.

The managers are responsible for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Company’s investments are segregated from the investment and administration functions through the appointment of The Bank of New York as independent custodian of the Company’s investments.

The managers have a compliance function in accordance with Financial Services Authority regulations. The Board receives a report on monitoring procedures at least annually. In addition, Baillie Gifford & Co. conducts an annual review of its internal controls which is documented within an internal controls report. This report is independently reviewed by Baillie Gifford & Co.’s auditors. A copy of the internal controls report is submitted to the Board. The Baillie Gifford & Co. heads of internal audit and compliance provide the Board with regular reports on their monitoring programs as they relate to the secretarial and administrative function.

CORPORATE GOVERNANCE *continued*

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the system and they have procedures in place to review its effectiveness on a regular basis.

The Board has undertaken a full review of all aspects of the published guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance) and believes that it has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the Turnbull recommendations. To ensure that risk management and internal control are considered on a regular basis and that a full risk and control assessment is undertaken on an annual basis, the following processes have been established in compliance with the guidance:

- internal control strategy has been formalised with the production of a detailed risk map whereby significant risks are identified and the key controls to manage those risks are confirmed as being in place and operating effectively;
- Baillie Gifford's reporting procedures for the internal audit department, in respect of its risk framework monitoring and audit programme, and the compliance department, in respect of its regulatory monitoring programme, are defined and formalised within a service level agreement; and
- regular reports on internal control are prepared by the managers and submitted for Board review.

These procedures ensure that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year, they also provide a mechanism to assess whether further action is required to manage the risks identified. The Board confirms that these procedures have been in place throughout the Company's financial year, are operating effectively and continue to be in place up to the date of approval of this Report.

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are included on pages 26 and 27.

The accounts have been prepared on the going concern basis, as it is the Directors' opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. As set out in the Directors' Report, the Directors unanimously recommended all shareholders to vote in favour of the forthcoming resolution that the Company should continue as an investment trust. On the expectation that this resolution will be approved, the Directors believe that the Company is a going concern.

An Audit Committee has been established in compliance with the Combined Code consisting of all Directors. The Audit Committee's authority and duties are defined within its formal terms of reference. The Chairman of the Board has been appointed Chairman of the Audit Committee.

An investment management agreement between the Company and Herald Investment Management Limited sets out the matters over which the managers have been delegated authority by the Board. The management agreement is terminable on not less than 12 months' notice and the Audit Committee reviews the terms of the management agreement.

The Board, currently comprising exclusively non-executive directors, meets periodically as an audit committee to review the Company's interim and annual financial statements. The Board approves the level of fees for audit and non-audit services and considers the relationship with the Company's auditors.

Relations with Shareholders

The Company's managers meet regularly with institutional shareholders and report to the Board. The Company's Annual General Meeting is used as an opportunity to communicate with private shareholders and the Board announces the level of proxies lodged. The notice period for the Annual General Meeting is at least twenty working days.

The Company has given discretionary voting powers to the investment managers, HIML. The managers vote against resolutions they consider may damage shareholders rights or economic interests. HIML give consideration to socially responsible investments when making investment decisions as they believe this to be in the best interest of the Company in the long term, but their overriding consideration is to produce good investment returns for shareholders.

CORPORATE GOVERNANCE *continued*

Compliance

Except for the variations noted above, the Board considers that throughout the year the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Hampel Committee on Corporate Governance in June 1998. The areas of variation are that there is no formal schedule of matters reserved for the Board and there is no recognised senior independent member of the Board.

New Combined Code

In July 2003 the Financial Reporting Council issued a revised Combined Code which incorporates recommendations made by the Higgs Review and the Smith Report. These revisions will come into effect for reporting years beginning on or after 1 November 2003. The Company is reviewing the revised Combined Code along with the recently published AITC Code of Corporate Governance and will be amending its corporate governance procedures where it considers it appropriate.

On behalf of the Board

Martin Boase

Chairman

20 February 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements 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 surplus or deficit for the year. In preparing the financial statements, the Directors are required to:

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

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 assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HERALD INVESTMENT TRUST plc

We have audited the Company's financial statements for the year ended 31 December 2003 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 directors' remuneration and transactions with the Company is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Company Summary, Year's Summary, Long Term Performance Summary, Directors, Manager and Advisers, Chairman's Statement, Investment Manager's Report, Top Twenty Holdings, Classification of Investments, Geographical Spread of Investments, Detailed List of Investments, Long Term Record, Directors' Report, unaudited part of the Directors' Remuneration Report, Corporate Governance Statement, Notice of Annual General Meeting and Further Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its net revenue for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP

Registered Auditor

Edinburgh

25 February 2004

STATEMENT OF TOTAL RETURN

(incorporating the revenue account)

FOR THE YEAR ENDED 31 DECEMBER 2003

		2003			2002		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9	–	136,680	136,680	–	(95,509)	(95,509)
Exchange difference on loans		–	3,169	3,169	–	582	582
Currency gains/(losses)		–	100	100	–	(146)	(146)
Income	2	3,882	–	3,882	3,539	–	3,539
Investment management fee	3	(2,727)	–	(2,727)	(2,470)	–	(2,470)
Other administrative expenses	4	(259)	–	(259)	(262)	–	(262)
Net return before finance costs and taxation							
		896	139,949	140,845	807	(95,073)	(94,266)
Finance costs of borrowings	5	(591)	–	(591)	(149)	–	(149)
Return on ordinary activities before taxation							
		305	139,949	140,254	658	(95,073)	(94,415)
Tax on ordinary activities	6	(29)	–	(29)	(31)	–	(31)
Return on ordinary activities after taxation							
		276	139,949	140,225	627	(95,073)	(94,446)
Ordinary dividend payable	7	(263)	–	(263)	(718)	–	(718)
Transfer to/(from) reserves							
		13	139,949	139,962	(91)	(95,073)	(95,164)
Return per Ordinary share							
Basic	8	0.32p	161.39p	161.71p	0.74p	(112.55p)	(111.81p)
Diluted (FRS 14)		0.32p			0.73p		
Dividend per Ordinary share		0.30p			0.85p		

The revenue column of this statement is the revenue account of the Company.

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

The accompanying notes on pages 31 to 38 are an integral part of this statement.

BALANCE SHEET

AT 31 DECEMBER 2003

	Notes	2003		2002	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	9		331,497		191,988
Current assets					
Debtors	11	898		522	
Cash at bank and in hand	10	18,639		8,763	
		<u>19,537</u>		<u>9,285</u>	
Creditors:					
Amounts falling due within one year	12	<u>(30,150)</u>		<u>(20,796)</u>	
Net current liabilities			<u>(10,613)</u>		<u>(11,511)</u>
			320,884		180,477
Creditors:					
Amounts falling due after one year	13		<u>–</u>		<u>(2,887)</u>
TOTAL NET ASSETS			<u>320,884</u>		<u>177,590</u>
Capital and reserves					
Called-up share capital	15		21,952		21,119
Share premium	16		73,738		69,723
Warrant reserve	16		–		1,516
Capital reserve – realised	16		182,463		186,381
Capital reserve – unrealised	16		40,670		(103,197)
Revenue reserve	16		2,061		2,048
EQUITY SHAREHOLDERS' FUNDS	17		<u>320,884</u>		<u>177,590</u>
NET ASSET VALUE PER ORDINARY SHARE					
Basic	18		365.44p		210.23p
Diluted (FRS14)	18		365.44p		206.68p
Fully diluted	18		365.44p		206.04p

The accounts were approved by the Board of Directors and signed on their behalf on 20 February 2004.

Martin Boase
Chairman

The accompanying notes on pages 31 to 38 are an integral part of this statement.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003		2002	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19		827		790
Servicing of Finance					
Loan interest		(580)		(84)	
Net cash outflow from servicing of finance			(580)		(84)
Financial investment					
Purchase of investments		(77,543)		(99,858)	
Sale of investments		74,274		69,514	
Currency movement		100		(146)	
Net cash outflow from financial investment			(3,169)		(30,490)
Equity dividend paid			(718)		(718)
Net cash outflow before financing			(3,640)		(30,502)
Financing					
Issue of Ordinary shares		3,332		22	
Loans drawn down		37,902		20,000	
Loans repaid		(27,718)		–	
Net cash inflow from financing			13,516		20,022
INCREASE/(DECREASE) IN CASH	20		9,876		(10,480)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	20				
Increase/(decrease) in cash in period			9,876		(10,480)
Increase in bank loans			(10,184)		(20,000)
Exchange movement on loans			3,169		582
MOVEMENT IN NET DEBT IN PERIOD			2,861		(29,898)
NET (DEBT)/FUNDS AT 1 JANUARY			(13,547)		16,351
NET DEBT AT 31 DECEMBER			(10,686)		(13,547)

The accompanying notes on pages 31 to 38 are an integral part of this statement.

NOTES TO THE ACCOUNTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted, which are unchanged from last year and have been applied consistently, are set out below.

(a) Accounting convention

The accounts are prepared under the historical cost convention, as modified by the revaluation of investments. The accounts have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” issued in January 2003.

(b) Investments

Listed investments are valued at closing mid-market prices. Investments on the Alternative Investment Market are included at their quoted mid-market prices. Where material unlisted investments are valued by Directors on the basis of latest information in line with the relevant principles of the British Venture Capital Association Guidelines.

(c) Income

Dividend income is accounted for when the entitlement to the income is established (normally on the ex-dividend date). Interest receivable is accounted for on an accruals basis.

(d) Capital reserves

The Company is precluded by its Articles from making any distribution of capital profits by way of dividend. Realised profits and losses on disposals of investments are dealt with in the realised capital reserve. Unrealised revaluation movements are dealt with through the unrealised capital reserve. Special dividends representing repayments of capital are dealt with through the unrealised capital reserve.

(e) Investment management fees

Investment management fees are charged wholly to revenue.

(f) Finance costs

Finance costs are accounted for on an accruals basis and are charged through the revenue account.

(g) Deferred taxation

Deferred taxation is provided on all timing differences which have originated but not reversed at the balance sheet date, calculated on an undiscounted basis, and based on enacted tax rates relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(h) Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and loans denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences of a revenue nature are taken to the revenue account. Those of a capital nature are taken to capital reserve.

NOTES TO THE ACCOUNTS *continued*

2. Income	2003 £'000	2002 £'000
Income from investments		
Franked dividends from listed investments	2,423	1,993
Franked dividends from unlisted investments (inc AIM)	118	63
Unfranked income from listed UK convertible bonds	–	3
Unfranked income from unlisted (inc AIM) UK convertible bonds	86	58
Overseas dividend income	820	606
Unfranked income from foreign convertible bonds	–	16
Gilt interest income	–	397
	3,447	3,136
Other income		
Deposit interest	428	385
Underwriting commission	7	18
	435	403
Total income	3,882	3,539
Total income comprises:		
Dividends	3,361	2,662
Interest from investments	86	474
Other	435	403
	3,882	3,539
Income from investments		
Listed UK	2,423	2,393
Listed overseas	820	622
Unlisted	204	121
	3,447	3,136

3. Investment management fee – <i>all charged to revenue</i>	2003 £'000	2002 £'000
Investment management fee	2,455	2,140
Irrecoverable VAT thereon	272	330
	2,727	2,470

Herald Investment Management Limited are appointed investment managers under a management agreement which is terminable on twelve months notice. Their fee is calculated on a monthly rate of 0.08333% of the Company's net asset value and is subject to VAT at the appropriate rate.

NOTES TO THE ACCOUNTS *continued*

4. Other administrative expenses – <i>all charged to revenue</i>	2003	2002
	£'000	£'000
Custodian's fees	37	44
Registrars' fees	25	26
Directors' fees	70	69
Auditors' fees – audit work	10	10
Miscellaneous expenses	117	113
	<u>259</u>	<u>262</u>

5. Finance costs of borrowings – <i>all charged to revenue</i>	2003	2002
	£'000	£'000
Bank loans repayable within five years	591	149
	<u>591</u>	<u>149</u>

6. Taxation	2003	2002
	£'000	£'000
Overseas taxation	29	31
	<u>29</u>	<u>31</u>
<p>The tax charge for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.</p>		
Revenue return on ordinary activities before taxation	305	658
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 – 30%)	92	197
Income not taxable	(762)	(617)
Overseas withholding tax claimed as a deduction	(9)	(9)
Overseas withholding tax written off	29	31
Excess expenses in period not provided for as an asset	679	429
Current tax charge for the year	<u>29</u>	<u>31</u>

Capital returns are not included in the above analysis; as an Investment Trust, the Company's capital gains are not taxable.

There is no corporation tax charge at 31 December 2003 or 31 December 2002 as the Company has unrelieved management expenses which are available to be carried forward. The tax charge for 31 December 2003 and 2002 comprises overseas withholding taxes written off.

At 31 December 2003 the Company had surplus management expenses of £7m (2002 – £5m) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

7. Ordinary dividend	2003	2002	2003	2002
			£'000	£'000
Proposed dividend per ordinary share	0.30p	0.85p	263	718
	<u>0.30p</u>	<u>0.85p</u>	<u>263</u>	<u>718</u>

The proposed dividend will be paid on 20 April 2004 to all shareholders on the register as at the close of business on 26 March 2004.

NOTES TO THE ACCOUNTS *continued*

8. Return per Ordinary share

	2003			2002		
	Revenue	Capital	Total	Revenue	Capital	Total
Basic	0.32p	161.39p	161.71p	0.74p	(112.55p)	(111.81p)
Diluted	0.32p			0.73p		

Basic revenue return per Ordinary share is based on the net revenue on ordinary activities after taxation of £276,000 (2002 – £627,000) and on 86,711,829 Ordinary shares (2002 – 84,468,090) being the weighted average number of Ordinary shares in issue during the year.

Basic capital return per Ordinary share is based on the net capital gain for the financial year of £139,949,000 (2002 – loss £95,073,000) and on 86,711,829 Ordinary shares (2002 – 84,468,090) being the weighted average number of Ordinary shares in issue during the year.

The diluted revenue return per Ordinary share is calculated using the weighted average number of warrants in issue during the year adjusted by the difference between the average price of the Ordinary shares during the year (244.31p (2002 – 221.62p)) and the Subscription price of 100p, to give a weighted average of 87,358,935 (2002 – 86,300,599) shares. The diluted revenue return of 0.32p (2002 – 0.73p) is based on the same net revenue figure used in the basic return calculation.

9. Fixed assets – investments

	2003		2002		
	£'000		£'000		
Listed at market valuation on the London Stock Exchange	184,699		105,946		
Listed at market valuation on other recognised Stock Exchanges	109,510		66,187		
AIM	35,222		18,203		
Unquoted*	2,066		1,652		
Total fixed asset investments	331,497		191,988		
	Listed in UK	Listed overseas	AIM	Unquoted	Total
	£'000	£'000	£'000	£'000	£'000
Cost of investments at 1 January 2003	131,131	109,353	50,434	4,957	295,875
Unrealised depreciation at 1 January 2003	(25,185)	(43,166)	(32,231)	(3,305)	(103,887)
Value of investments at 1 January 2003	105,946	66,187	18,203	1,652	191,988
Movements in the year:					
Purchases at cost	27,106	41,291	7,880	1,075	77,352
Sales – proceeds	(38,860)	(33,330)	(2,333)	–	(74,523)
– realised profit/(loss)	9,127	(2,475)	(12,952)	–	(6,300)
Increase in unrealised appreciation/(depreciation)	90,066	37,837	15,988	(911)	142,980
Change in listing	(8,686)	–	8,436	250	–
Value of investments held at 31 December 2003	184,699	109,510	35,222	2,066	331,497
Cost of investments at 31 December 2003	119,818	114,839	51,465	6,282	292,404
Unrealised appreciation/(depreciation) at 31 December 2003	64,881	(5,329)	(16,243)	(4,216)	39,093
Value of investments at 31 December 2003	184,699	109,510	35,222	2,066	331,497
Gains/(losses) on investments				2003	2002
				£'000	£'000
Realised losses on sales				(6,300)	(17,586)
Increase in unrealised appreciation/(depreciation)				142,980	(77,923)
				136,680	(95,509)

The movement in unrealised appreciation/(depreciation) of £142,980,000 comprises £24,852,000 previously recognised as unrealised appreciation/(depreciation) in respect of sales in the year and £118,128,000 in respect of other movements in appreciation/(depreciation).

* The unquoted balance comprises Herald Investment Management Limited and HIML Jersey Ltd included at their cost of £251,561, ID Data 7% Convertible Secured Loan Notes 2008 at £1,000,000, OneClick HR 3.5% at £75,000, Statpro Variable at £400,000, UbiNetics at £338,983 and Atex Media Solutions (grey market value at 31 December 2003 of £36,000) and Adaptive Venture Managers at zero.

At 31 December 2003 the Company was the beneficial owner of 13.83% (2002 – 14%) of the Ordinary share capital of both HIML and HIML Jersey Ltd. HIML is incorporated in the United Kingdom whereas HIML Jersey Ltd is incorporated in Jersey.

NOTES TO THE ACCOUNTS *continued*

10. Financial assets

A full list of the Company's investments is given on pages 13 to 17. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector and a review of the 20 largest equity investments by their aggregate market value, are contained in the investment review section on pages 9 to 12. All financial assets are included in the accounts at market value (see note 1).

Exposure to currency risk through asset allocation is indicated below:

	2003	2002
	£'000	£'000
Portfolio (currency of listing):		
Sterling	222,497	124,220
US dollars	64,987	38,028
Euros	11,806	8,253
Other European currencies	6,128	4,485
Yen	2,139	993
Hong Kong dollars	1,262	4,931
Singapore dollars	8,280	3,812
Malaysian ringitt	4,242	3,011
Other Asia Pacific currencies	4,336	2,802
Australian dollars	5,820	1,453
	331,497	191,988
Cash:		
UK deposits	18,286	7,646
Foreign deposits – Taiwan dollars	228	1,117
– Singapore dollars	38	–
– Israel shekels	87	–
	18,639	8,763

The cash deposits generally comprise call or overnight deposit accounts which are payable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

The interest rate risk profile of the Company's financial assets at 31 December was:

	2003			2002		
	Market value	Weighted average interest rate/interest rate	Weighted average period until maturity/maturity date	Market value	Interest rate	Maturity date
	£'000	rate	date	£'000	rate	date
Fixed rate:						
UK convertible bonds	1,668	7%	4 years	518	8%	31/10/05
US convertible bond	50	–	01/08/04	55	6.75%	01/08/04
Floating rate:						
UK convertible bond (interest rate linked to sterling LIBOR)	400	6%	02/01/04	400	6%	02/01/04

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

11. Debtors

	2003	2002
	£'000	£'000
Due within one year:		
Income accrued	495	455
Sales for subsequent settlement	249	–
Taxation recoverable	34	17
Other debtors and prepayments	120	50
	898	522

12. Creditors

	2003	2002
	£'000	£'000
Amounts falling due within one year:		
Purchases for subsequent settlement	129	320
Proposed final dividend	263	718
Bank loans (see note 14)	29,325	19,423
Other creditors and accruals	433	335
	30,150	20,796

Included in other creditors and accruals is £267,000 (2002 – £148,000) in respect of the investment management fee.

NOTES TO THE ACCOUNTS *continued*

13. Creditors

	2003	2002
Amounts falling due after more than one year:	£'000	£'000
Bank loan (see note 14)	–	2,887
	–	2,887

14. Financial liabilities

The Company has arranged multi-currency loan facilities with The Royal Bank of Scotland plc and ING Bank N.V. The facilities with the Royal Bank of Scotland plc comprise a five year £3 million facility which expires on 7 January 2004 and a 364 day £20 million facility which expired on 31 October 2003. The ING Bank N.V. facility comprises a 364 day £30 million facility which expires on 26 October 2004.

The interest rate risk profile of the Company's financial liabilities at 31 December was:

	2003			2002		
	£'000	Interest rate	Period until maturity	£'000	Interest rate	Period until maturity
<i>Bank loans:</i>						
US\$ 47,350,000 – fixed rate	26,450	1.7%	10 months	–	–	–
US\$ 31,268,000 – fixed rate	–	–	–	19,423	2.1%	10 months
Yen 551,550,000 – fixed rate	2,875	2.5%	1 week	2,887	2.5%	12 months
	–	–	–	29,325	–	19,423

	2003	2002
	£'000	£'000
<i>The maturity profile of the Company's financial liabilities at 31 December was:</i>		
In one year or less, or on demand	29,325	19,423
In more than one year, but not more than two years	–	2,887
	29,325	22,310

The fair value of the loans are not materially different from the carrying value.

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

Gains and losses on hedges

At 31 December 2003 there were no unrecognised gains/losses on hedges. Realised currency gains/losses are taken to the capital reserve and are not reflected in the profit and loss account unless they are of a revenue nature.

15. Called-up share capital

		2003	2002
Authorised:			
Ordinary shares of 25p:	Number	109,000,000	109,000,000
	£'000	27,250	27,250
Allotted, issued and fully paid:			
Ordinary shares of 25p:	Number	87,807,348	84,475,145
	£'000	21,952	21,119

At the Annual General Meeting in April 2003 Shareholders granted the Company authority to purchase shares in the market up to 12,662,824 Ordinary shares (equivalent to 14.99% of its issued share capital at that date). No Ordinary shares were bought back during the year and, therefore at 31 December 2003 the Company's authority to buy back shares remained unchanged at 12,662,824. Under the provisions of the Company's Articles share buy-backs are funded from the realised capital reserve. The nominal value of the share capital would be maintained by the provision of a capital redemption reserve.

At 1 January 2003 there were 3,332,203 Warrants in issue, each warrant entitled the holder to subscribe for one Ordinary share per Warrant at a price of 100p on 30 April in any of the years 1995 to 2003. 30 April 2003 was the final date for the exercise of the warrants and, in accordance with the terms and subject to the conditions of the Warrants, 3,332,203 Ordinary shares were allotted in respect of Warrants on which the subscription rights had been exercised. At 31 December 2003 there were no Warrants in issue.

NOTES TO THE ACCOUNTS *continued*

16. Reserves

	Share premium £'000	Warrant reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Balance at 1 January 2003	69,723	1,516	186,381	(103,197)	2,048
Arising on exercise of warrants	2,499	–	–	–	–
Transfer on warrants exercised	1,516	(1,516)	–	–	–
Net loss on realisation of investments	–	–	(6,300)	–	–
Increase in unrealised appreciation	–	–	–	142,980	–
Exchange difference on currency loans	–	–	2,282	887	–
Other exchange differences	–	–	100	–	–
Net revenue for the year	–	–	–	–	13
Balance at 31 December 2003	<u>73,738</u>	<u>–</u>	<u>182,463</u>	<u>40,670</u>	<u>2,061</u>

17. Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Shareholders' funds at 1 January 2003	177,590	272,732
Total recognised gains and losses for the year (after dividend payments)	139,962	(95,164)
Proceeds from exercise of warrants	3,332	22
Shareholders' funds at 31 December 2003	<u>320,884</u>	<u>177,590</u>

18. Net asset value per Ordinary share

The net asset value per Ordinary share and the net assets attributable to the Ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2003	2002	2003 £'000	2002 £'000
Ordinary shares – basic	365.44p	210.23p	320,884	177,590
– diluted (FRS14)	365.44p	206.68p	320,884	177,590
– fully diluted	365.44p	206.04p	320,884	180,922

Net asset value per Ordinary share is based on net assets as shown above and 87,807,348 (2002 – 84,475,145) Ordinary shares, being the number of Ordinary shares in issue at each date.

When the Warrants were in existence the diluted net asset value per Ordinary share was calculated in accordance with Financial Reporting Standard 14 (FRS14). At 31 December 2002 this was based on net assets as shown above and on 85,924,748 Ordinary shares, being the number of Ordinary shares in issue at that date plus the notional number of Ordinary shares that would have been issued for no consideration using the share price of 177.0p at that date.

The fully diluted net asset value per Ordinary share was calculated on the assumption that the warrants in issue at 31 December 2002 were fully exercised at that date at 100p each, resulting in net assets as shown above and 87,807,348 Ordinary shares in issue.

The final date for the exercise of warrants was 30 April 2003. There were no outstanding warrants at 31 December 2003 (2002 – 3,332,203).

19. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	2003 £'000	2002 £'000
Net revenue on ordinary activities before finance costs and taxation	896	807
(Increase)/decrease in accrued income	(46)	38
(Increase)/decrease in debtors	(70)	23
Increase/(decrease) in creditors	87	(45)
Income tax suffered	(11)	(2)
Overseas tax suffered	(29)	(31)
Net cash inflow from operating activities	<u>827</u>	<u>790</u>

NOTES TO THE ACCOUNTS *continued*

20. Analysis of changes in net debt

	At 1 January 2003 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 December 2003 £'000
Cash at bank and in hand	8,763	9,876	–	–	18,639
Loans due within one year	(19,423)	(10,184)	(2,887)	3,169	(29,325)
Loans due within more than one year	(2,887)	–	2,887	–	–
	<u>(13,547)</u>	<u>(308)</u>	<u>–</u>	<u>3,169</u>	<u>(10,686)</u>

21. Derivatives and Other Financial Instruments

In accordance with the corporate objective of maximising total returns the Company invests in securities on a worldwide basis. The Company makes use of gearing to achieve improved performance in rising markets. Other financial instruments consist of cash, short term debtors and creditors.

The main risks arising from the Company's financial instruments are market price, foreign currency, liquidity and interest rate risks. The Manager's policies for managing these risks, which have been applied throughout the year, are summarised below.

Market Price Risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the corporate objective. Securities held by the Company are valued at mid-market prices, where material unlisted investments are valued by the Directors on the basis of latest information in line with the relevant principles of the British Venture Capital Association Guidelines (Accounting Policy (b)). These valuations also represent the fair value of the investments.

The Company has authority to write options against individual shares held within the portfolio. No such transactions were undertaken in the year under review.

Foreign Currency Risk

Herald invests on a worldwide basis and the balance sheet can be affected by movements in foreign currency exchange rates. The list of equity investments on pages 13 to 17 shows the countries in which the Company is invested. The securities in the portfolio are priced in local currency.

The Company does not hedge the sterling value of investments that are priced in other currencies. Overseas income is subject to currency fluctuations. The Company does not hedge this currency risk.

The main foreign currency exposure at 31 December 2003 is detailed in note 10 Financial assets and note 14 Financial liabilities.

Liquidity Risk

The Company's assets mainly comprise readily realisable securities. Cash balances are held with The Bank of New York. Short term flexibility is achieved by an overdraft facility of £2 million with The Bank of New York.

Interest Rate Risk

The majority of the Company's assets are equity shares and other investments which neither pay interest nor have a maturity date. However, the Company does hold Convertible Bonds and has held Treasury Stocks, the interest rate and maturity dates of which are detailed in note 10 Financial assets. Interest is accrued on sterling cash balances at a rate linked to the UK base rate.

At the year end the Company had borrowings totalling £29,325,000 (Yen 551,550,000 and US\$47,350,000) (2002 – £22,310,000 (Yen 551,550,000 and US\$31,268,000)) which become due for repayment in January 2004 and October 2004 respectively (see note 14).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Herald Investment Trust plc will be held at 12 Charterhouse Square, London EC1M 6AX on 14 April 2004 at 11.30 am for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' report, the annual accounts and the Auditors' report in respect of the year ended 31 December 2003.
2. To approve the Directors' Remuneration Report.
3. To declare a dividend of 0.30p per share in respect of the year ended 31 December 2003.
To consider resolution No. 4, special notice having been received of the intention to propose the resolution as an ordinary resolution (see note 4).
4. To re-elect Mr M Boase, who is aged 71, as a Director of the Company.
5. To re-elect Mr C M Brendish as a Director of the Company.
6. To reappoint Ernst & Young LLP as Auditors to the Company.
7. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

8. THAT, pursuant to article 153 of the Articles of Association of the Company, the Company will continue to operate as an investment trust company until the conclusion of the Annual General Meeting of the Company to be held in 2007.
9. THAT, the maximum aggregate amount of all fees paid to the Directors for their services (excluding amounts payable for executive or extra or special services) be increased to £100,000 per annum and that article 87 of the Articles of Association of the Company be read and construed accordingly.

To consider and, if thought fit, pass the following resolution as a Special Resolution:

10. THAT, the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of its issued shares of 25p each in the capital of the Company in substitution for any existing authority under section 166 of the Act but without prejudice to any exercise of any such authority prior to the date hereof.

PROVIDED ALWAYS THAT

- (i) the maximum number of shares hereby authorised to be purchased shall be 14.99% of the issued share capital on the date on which this resolution is passed;
- (ii) the minimum price which may be paid for a share shall be 25p;
- (iii) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations for a share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased;
- (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors);
- (v) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005; and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

By order of the Board

Baillie Gifford & Co.
Secretaries

Registered Office:
12 Charterhouse Square
London EC1M 6AX
3 March 2004

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 11.30 am on 12 April 2004 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
4. In accordance with section 293 of the Companies Act 1985 special notice has been given to the Company of the resolution to reappoint a Director who is over the age of 70.
5. No Director has a contract of service with the Company.

FURTHER SHAREHOLDER INFORMATION

- **How to Invest** The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker or by asking a professional adviser to do so.
- **Sources of Further Information on the Trust** The price of shares is quoted daily in the *Financial Times*, *The Daily Telegraph* and *The Times*. The NAV per share is calculated and released daily to the London Stock Exchange and monthly to the Association of Investment Trust Companies.
- **Key Dates** Ordinary shareholders normally receive a dividend in respect of each financial year which is normally paid in April. The AGM is normally held in April.
- **Taxation** The price of the Ordinary shares (adjusted for the price of attributable warrants) on 21 February 1994, which was the first day of trading, was 90.9p. The amount attributable to the warrants for the purpose of capital gains tax is 9.1p per share issued (1994 Annual Report). Up to 5 April 1998 the basis for calculating non-trading gains or losses was the difference between that price, or any subsequent purchase price, and the sale price, using the indexation allowance for inflation. However, this indexation allowance was frozen at 5 April 1998, and replaced by a taper relief. Taper relief, however, cannot create or increase a loss. Any shareholder uncertain of his or her position is recommended to seek expert advice.
- **ISAs/PEPs** The Ordinary shares of the Company are qualifying investments for individual saving accounts and personal equity plans. PEPs ceased to be available for further investment from 5 April 1999. Any individual contemplating investment should consult his or her own adviser.

Herald is an investment trust. Investment trusts offer investors the following:

- Participation in a diversified portfolio of shares.
- Constant supervision at low cost by experienced professional managers.
- Freedom from capital gains tax on capital profits realised within the portfolio.
- The opportunity to achieve improved performance for shareholders' funds in rising markets by the borrowing of additional money.

