

HERALD INVESTMENT TRUST plc

Interim Report

For the six months ended 30 June 1999

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Investment Policy

The policy of the Company is to achieve capital appreciation through investments in smaller quoted companies, principally in the UK but also in the rest of the world, in the areas of communications and multi-media. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies.

CHAIRMAN'S REVIEW

This is the sixth interim statement for the Trust, and I am delighted to be able to report the highest percentage increase in assets in any six month period since inception, with an overall capital increase of 32.6%. However, this has been achieved against a more sympathetic background for valuations of smaller companies. In general, business conditions in the underlying investments have been sound and the manager believes that the re-rating in the first half is fully justified and reflects a partial catch-up with the revaluation previously seen in larger companies. It is also pleasing to be able to report strong contributions from Europe and the Far East, although the exposure to these markets remains small. The inclusion of the Norwegian software company, Avenir, and the Malaysian newspaper, the Star, in the list of top 20 holdings reflects particularly useful contributions from these investments. These along with the returns on most of the other holdings in the top 20 were the more rewarding because they significantly reflected the benefits of a readjustment to the portfolio last year away from software service companies. It is notable that over this period the FTSE-IT index has, in contrast, been relatively lacklustre. The performance was more broadly based than last year, with 23 stocks appreciating by in excess of £1 million, and in aggregate contributing to a rise in assets of £40 million, across a diverse range of companies and sectors.

Performance has also benefited from the shake out in the market last year which, particularly in retrospect, provided a wonderful opportunity to buy back warrants. In total, over 6 million warrants were acquired for cancellation last year, significantly reducing the dilutive effect on the asset rise this year. Whilst volatile markets can be unnerving for investors, they can provide good opportunities for adjusting the portfolio, particularly in a closed end vehicle such as an investment trust.

Summary of Performance

	At inception		Performance		Performance since inception
	16 February 1994	31 December 1998	At 30 June 1999	since 31 December 1998	
Basic NAV per share	98.7p	206.25p	273.54p*	+32.6%	+177.1%
Fully diluted					
NAV per share	98.9p	200.31p	263.96p*	+31.8%	+166.9%
Share price	90.9p	161.5p	241.0p	+49.2%	+165.1%
Warrant price	45.5p	77.5p	140.5p	+81.3%	+208.8%
FT-SE 100 Index	3,417.7	5,882.60	6,318.5	+7.4%	+84.9%
HGSC Index					
(ext. cap gains ex IT)	1,750.0	1,818.72	2,330.18	+28.1%	+33.2%
Russell 2000					
Technology Index	—	157.04	184.71	+17.6%	—

*The NAV figures are stated on a capital only basis, and do not include any income retention at that date. This is because the Company only pays one dividend per year and no provision has been made at this stage. However, the NAV figures given after the Balance Sheet do include the Revenue Reserve uplift for the period. The fully diluted NAV figures given after the Balance Sheet take into account the price of the ordinary shares at the period ends, as required by FRS 14.

Capital Performance of the Trust from 31 December 1998 to 30 June 1999

UK Equities	+34.3%
European Equities	+49.6%
US Equities	+19.2%
Other Overseas Equities	+39.2%
Total Portfolio	+32.6%

Herald Investment Trust is continuing its policy to pay annual dividends only, reflecting the emphasis on capital growth. The Trust's income has declined this year in spite of the fact that dividends have almost invariably risen. This reflects the number of acquisitions last year of higher yielding stocks, the reduced levels of interest income due to lower interest rates and a more fully invested position. The modest interest charge reflects the interest payable on a Yen loan equivalent to £3 million put in place at the start of this year, however the rate of interest payable is lower than the interest received on sterling deposits, so this has not adversely affected returns. Second half profits should be higher on current income projections.

For most of 1997 and 1998 the performance of the Trust led the tables for Smaller and International Smaller Companies. In the first half of 1999, although the Trust outperformed its most relevant benchmark, the HGSCI by over 4%, it did not head the tables in the first half, as performance from other sectors picked up. However, the record has been sufficient to make the Trust one of the top performers, in any market, over the last five years. And it is a steady long-term record that the manager seeks above all.

Last year the market was unnerved in the third quarter by instability in Asian economies, and by excessively leveraged hedge funds threatening to destabilise financial institutions. Whilst these fears have receded, the recent strong performance and historically high overall market valuations, inevitably make us look for the next storm. The two outstanding positive elements are the low level of interest rates, and the increasing appetite for equity savings in the developed world. The greatest risk to equities would seem to come from a reversal of the decline in interest rates reflecting a robust US economy and the recent sharp rise in the price of certain commodities, albeit offset by the deflationary effects of the ever increasing efficiency of world communications. On balance we continue to believe that the case for investing in a portfolio focusing on the growth markets of technology and media remains firmly intact, whatever the macro background.

March Boase

4th August 1999

STATEMENT OF TOTAL RETURN
for the six months ended 30 June 1999 (Unaudited)

	Six months to 30 June 1999		Six months to 30 June 1998	
	Revenue	Total	Revenue	Total
	£'000	£'000	£'000	£'000
Gains on investments	55,796	55,796	39,983	39,983
Currency gain/loss	93	93	(81)	(81)
Loss on warrant repurchase	—	—	(850)	(850)
Income	1,866	1,866	1,957	1,957
Investment management fee	(1,206)	(1,206)	—	—
Loan interest	(56)	(56)	—	—
Other expenses	(95)	(95)	—	—
Net return before tax	529	56,418	837	39,889
Taxation	(139)	(139)	—	—
Return on ordinary securities after taxation	390	56,279	837	39,889
Return per Ordinary share	0.47p	67.40p	0.67p	47.78p
— Basic	0.46p	65.37p	0.63p	45.48p
— Fully diluted	—	—	—	—

The basic return per Ordinary share calculations are based on a weighted average number of shares in issue during each period. For the period to 30 June 1999, the weighted average number of Ordinary shares was 82,921,642 (1998: 82,899,164).
The fully-diluted return per Ordinary share have been calculated on the weighted average share warrants in issue during the period adjusted by the difference between the average price of the Ordinary shares during the period and the Subscription price of £1.00, giving a weighted average of 85,502,770 (1998: 87,072,628) shares. The unaudited fully-diluted number of shares at 30 June 1999 was 87,807,349 compared to 91,898,066 at 30 June 1998.

SUMMARISED BALANCE SHEET
at 30 June 1999 (Unaudited)

	30 June 1999	31 December 1998
	£'000	£'000
Investments	217,519	165,677
Net current assets	12,694	5,365
Currency loan	(2,891)	—
Shareholders' funds	227,322	170,982
Capital and Reserves:		
Share capital	20,740	20,725
Share premium account	67,900	67,827
Warrant reserve	2,205	2,232
Capital reserve		
— Realised	64,012	50,836
— Unrealised	70,440	27,727
Revenue reserve	2,025	1,635
	227,322	170,982
Net Asset Value per Ordinary share		
— Basic	274.01p	206.25p
— Fully diluted	264.95p	201.70p

The Balance Sheet at 31 December 1998 is an abridged version of that contained in the full Accounts for that year, which received an unqualified audit report and which have been filed with the Registrar of Companies.

TOP TWENTY HOLDINGS
in companies, by market value at 30 June 1999

Company	Sector	£'000	% of portfolio
Sherwood International	Insurance software	10,588	4.87
Admiral	Software and computer consultancy	6,423	2.95
IMS	Telephone information services	6,085	2.80
Alba	Consumer electronics	5,462	2.51
Acal	Electronic products distribution	5,197	2.39
Lyrix Holdings	Computer systems etc.	5,022	2.31
Telemetrix	ISDN equipment and ASICS	4,441	2.04
Informa	Conference/training/magazines	4,382	2.01
Tempus Group	Media buying	4,286	1.97
Diploma	Electronic components & others	4,246	1.95
Arm Holdings	Designs RISC microprocessors	3,645	1.68
GWR	Commercial radio operator	3,521	1.62
Burr-Brown (United States)	Analogue semiconductors	3,311	1.52
Scottish Radio	Radio operator	3,198	1.47
Dorling Kindersley	Publisher	3,120	1.43
Applied Holographics	Holograms	3,113	1.43
Cordiant Communication	Advertising	2,984	1.37
Star Publications (Malaysia)	Newspaper publisher	2,810	1.29
Avenir (Norway)	Computer software services	2,722	1.25
Linx Printing Technologies	Printer manufacturer	2,722	1.25
		<u>87,278</u>	<u>40.11</u>

GEOGRAPHIC SPREAD OF INVESTMENTS



DIRECTORS, MANAGER AND ADVISERS

DIRECTORS

Martin Boase (Chairman)
Timothy George Abell
Justin Paul Dukes
Colin Michael McCarthy
Clive Anthony Parritt

SECRETARY

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REGISTERED OFFICE

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INVESTMENT MANAGER

Katie Potts
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COMPANY NUMBER

2879728 (England and Wales)

SOLICITORS

Macfarlanes
10 Norwich Street
London EC4A 1BD

AUDITORS

Ernst & Young
Ten George Street
Edinburgh EH2 2DZ

BANKERS

RBS Trust Bank Limited
67 Lombard Street
London EC3P 3DL

STOCKBROKERS

Warburg Dillon Read
1 Finsbury Avenue
London EC2M 2PP

REGISTRARS

Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 606 664
Fax: 01484 608 764

A MEMBER OF THE ASSOCIATION OF INVESTMENT TRUST COMPANIES

Year 2000 Compliance

The business systems of our Manager, Herald Investment Management Limited and our Secretary, Stewart Ivory, have all been tested and have been shown to be Year 2000 compliant. Statements of compliance have also been obtained from all manufacturers of their systems. A continuity plan has been put in place to maintain compliance through into 2000. All new software and hardware will be tested for compliance before introduction into the business systems. In addition, contingency plans have been prepared for each system should it not function in January 2000 despite the rigorous testing that has been completed. There will be no direct cost to the Trust associated with Year 2000 compliance.