

PRELIMINARY STOCK EXCHANGE ANNOUNCEMENT

HERALD INVESTMENT TRUST plc

Results for the year to 31 December 2010

16 February 2011

CHAIRMAN'S STATEMENT

The macroeconomic and stock market background was more benign in 2010. This was reflected in a continued recovery in the Company's market value and the net asset value (NAV) per share grew 41.2%, comfortably ahead of any relevant index.

The UK, which still accounts for the majority of the portfolio, had a total return of 42.4%. In comparison, the FTSE Small Cap index had a total return of 19.9%, and the FTSE 100 of 13.1%. The US portfolio performed even better with a \$ return of 47.5%. This compares with the NASDAQ rising 18.2% and the Russell 2000 Technology Index rising 37.4%. The exchange rate enhanced these returns to 52.6% in £. The local currency return in Europe was a more modest 20.9%, 17.8% in sterling, but the Company's European exposure is now very modest. The Far East returned 15.6% in local currencies significantly enhanced by currency (27.5% in £). This lower return is consistent with the Manager's cautious weighting; the Taiwanese stock exchange Electronics index and the KOSDAQ IT index were relatively flat in local currencies.

In spite of the robust growth in NAV per share of 41.2%, the valuation of the portfolio is similar to last year in p/e terms illustrating the robust underlying growth in profits. This is somewhat higher than the long term growth rate and reflects a recovery in profits in certain companies that had been adversely impacted by the recession in 2009 and some of the funds raised through takeovers and profit taking giving the opportunity to reinvest on lower valuations. Nevertheless it provides an encouragingly solid base for further growth in 2011.

It is interesting to observe that smaller companies have continued to outperform larger ones in the technology sector in 2010, and the UK and the US have significantly outperformed the Far East and Europe, and the wider indices. The portfolio has been well positioned to exploit this. It might be worth illustrating some long term figures to highlight the long term performance divergences.

Compound annual rate of return from inception and from full globalisation at the end of 1998

	21/02/1994	31/12/1998
HIT NAV (fully diluted)	11.2%	9.4%
HIT share price	10.4%	9.6%
HIT UK capital	15.7%	15.1%
HGSC capital	5.5%	7.4%
Russell 2000 Technology £	-	3.4%
Taiwan Electronics £ (total return)	-	5.0%
KOSDAQ IT £ (total return)	-	(0.2%)

Source: HIML

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CHAIRMAN'S STATEMENT (continued)

There are a number of interesting points to make. Firstly, the Company's NAV has compounded in capital terms since inception at 11.2% per annum. The UK (+15.7% per annum) and European portfolios (+13.9% per annum) which were the Company's original focus, have compounded somewhat faster than this. This is significantly ahead of the returns on the UK market as a whole and the various smaller companies indices and demonstrates that the UK has been, and the Manager believes will remain, a fertile area for investing in TMT stocks. The satisfactory UK return has also been enabled by the opportunity to exploit the market's volatility. In particular the Manager raised cash in 2000 but was a net investor in 2002, 2008 and 2009. Whilst the fund has benefited from its specialist focus on the sector, which is now unique in the UK, the US portfolio has performed satisfactorily relative to US indices but lagged the UK. The focus on the US, where trends emerge first, has also enabled greater returns in the UK. The long term returns have been weaker elsewhere, which in part reflects a greater focus on the UK and US, but the asset allocation has correctly perceived the easier returns in the UK. The Taiwanese electronics index has performed marginally better than Russell 2000 Technology Index, but the KOSDAQ IT index in Korea much worse.

It is pleasing to see that, as a consequence of the strength of the performance in the UK, over the long term the Company has outperformed all but one of the 87 surviving technology or TMT specialist funds managed in the US, UK and Europe since 31 December 1998, even in share price terms in spite of a wider discount. This seems a fair starting point because it includes the period over which the Company's mandate has been fully global and includes the boom and ensuing bust of 1999-2000, as well as the more recent financial turbulence. Undoubtedly the Company has benefited from its closed end nature as an investment trust, which has avoided cash inflows at times of excess enthusiasm and avoided cash outflows in the market troughs, which would have led to assets being sold on a distressed basis. The other closed end technology funds have also performed relatively well over the cycles.

Net income has been affected by the interest payable on the loan stock. As a consequence, no dividend is proposed in respect of the year.

Whilst the structural imbalances in the world economy cast a continuing cloud, the sector should fare relatively well in a background of inflation or deflation. Whilst investee company valuations are not as compelling as two years ago, they are attractive against the valuation of bonds and very modest versus the last time your Company had a NAV per share at this level in 2000. The launch of the iPad in 2010, from which the portfolio has benefited, epitomises how innovation can drive new markets.

Julian Cazalet
Chairman
15 February 2011

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MANAGER'S REPORT

At the start of the year I thought the portfolio was good value, with expectations of solid earnings. Candidly, I did not expect a return of over 40%. These seem to be the main reasons why my expectations were exceeded:

- 1) Global growth exceeded expectations. The structural trade imbalances remain severe and excessive levels of debt proliferate. While there is an evident credit squeeze on private sector debt, global fiscal deficits have ballooned, stimulating demand growth and providing a sympathetic background for growth in corporate profitability for those with sufficient capital. I have experienced several recessions in my career, but 1980, 1984, 1991 and 2002 all seemed to have a greater adverse effect on profitability. I suspect this reflects more prudent business models in TMT companies since the ferocious 2002 downturn, low interest rates and also the continued buoyant levels of demand reflecting the pervasive adoption of technology in the enterprise and the home. Relative to bonds, property values and the wider equity markets, the portfolio's earnings yield continues to seem good value. However, I cannot fathom out how the excessive Government fiscal deficits in US, Japan, Europe and the Chinese local Government, combined with the continued deleveraging of the banks, will play out. The appetite and need for pensions in the developed world and the dramatic increase in life expectancy imply a higher savings ratio and subdued consumer demand. This in turn implies that returns on capital will be low - i.e. capital will be cheap and equities seem likely to become more expensive. This will be a change from the current environment of capital scarcity and where pension funds have been migrating into bonds, out of equities. Asset allocation seems to be driven by actuaries and accounting standards rather than fund managers. The trick will be to find companies that can continue to grow profits in this environment.
- 2) Continuing takeovers in the portfolio, with the ability to reinvest on substantially lower valuations means that in spite of further net outflows from the UK and US markets, redeployment of some of the proceeds has provided much needed liquidity. This year there have been 13 takeovers in the portfolio for cash realising £32.3m. In contrast the market for IPOs has again been minimal in the UK (only Digital Barriers appealed), and although it tried to get going in the US, many issues were withdrawn. There is a curious dichotomy between some of the larger technology companies in the US holding huge cash balances which generate an inadequate return on capital, while there is a shortage of capital for earlier stage companies. This mirrors the divergence in remuneration between the skilled workers and the unemployed. The knowledge based economy presents challenges for investors as it does for those starting their careers. The unwillingness by investors to participate in primary fund raisings has in the short term been helpful to the Company, both in providing reasonably priced investment opportunities and enabling the focus of available resources to support the secondary market as described. However, if the UK and the US are going to maintain their lead in developing leading edge technologies and growing companies with pricing power, then this capital drought in the venture market as well as the quoted market has to end. It is a source of frustration that more people do not share my enthusiasm for the sector in which I believe and invest, with an idealism that it is the sector which can enable the developed world to sustain and grow its living standards.

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MANAGER'S REPORT

(continued)

- 3) Innovation continues to open new markets and in 2010 the iPad arrived, stimulating demand for component suppliers, internet traffic and paid content. This product was more disruptive than anticipated, has clearly stimulated the portfolio and contributed to upgrades in profit expectations. The drivers that have led to this eruption include 3G mobile telephones, 802.11n wifi, touchscreens, multi-threading technology, multi-core processing, increased integration, all of which have led to market share shifts and spectacular growth for certain companies other than just Apple.

UK

The UK portfolio has delivered a total return of 42.4%. Within this the biggest monetary returns came from the two biggest holdings, Imagination (+£10.0m) and SDL (+£8.3m), but 12 holdings yielded a return in excess of 100% and an increase in excess of £1m. These include CML Microsystems +536%, Avesco +378%, Telit +232%, Bango +189%, Andor +177%, Xaar +158%, Zoo Digital +153%, IQE +138%, Sandvine +139%, K3 +124%, Wolfson +117% and OMG +106%. Of these CML, Avesco, Telit, K3 and Wolfson were new holdings in 2008 or 2009. In addition we participated in secondary placings providing expansion capital for Bango, Xaar and IQE materially increasing the stake in each and a rescue financing at 15p for Zoo Digital. The Andor, IQE and OMG stakes were all materially increased in the secondary market. Imagination had been the worst loss in the portfolio in 2008, but we materially added to the holding and then reduced it over time in 2010 until they too had a secondary placing towards the end of the year in which we also participated. It is extremely fulfilling to have been able usefully to provide capital to these businesses, while also achieving exceptional returns for investors. Unfortunately we bought back c9% of Herald's equity in the downturn. As I suspected at the time this has clearly adversely affected the net assets per share for continuing shareholders, because although the repurchases were on discounts up to 25%, the scale of outperformance of new or increased positions has almost invariably outperformed the portfolio as a whole by more than 25% and there simply was not the liquidity in other holdings to switch. Anyway, even the more resilient holdings were under pressure and we were determined to be supportive in fear of losing positions too cheaply to opportunistic acquisitions. Bear in mind that the portfolio had already risen 66.5% in 2009. Mercifully the Directors and a number of substantial wiser shareholders were supportive in resisting pressure from a small aggressive minority who were pushing for buy-backs, which either reflected their own distress or a failure to comprehend the market in which we invest and the outstanding opportunities that were available. With hindsight I regret not trusting my instincts more, resisting totally and utilising borrowing facilities more fully, but realistically it has probably only adversely impacted the NAV per share by 3-8%. Even more so, I regret my inability to convey my enthusiasm to the wider market. The sceptics and the pension funds and insurance companies seem to have significantly left the register, so I hope that 2011 might see an improvement in the share price relative to the assets.

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MANAGER'S REPORT (continued)

It is interesting that in spite of two recovery years the market for IPOs ended the year firmly closed. In part this reflects a couple of overpriced issues getting away and disappointing, in part the continued shift of capital away from equities by insurance companies and pension funds and in part a fear of the illiquidity of smaller companies. This caused unfortunate volatility in Herald's NAV when there were distressed sellers in the market, but it has enhanced assets. Pension funds and insurance companies really are the investors that ought to be able to take long term stakes and I cannot help but believe that this dramatic switch into fixed interest will prove expensive.

Takeovers in the UK portfolio include Portrait Software, Innovision, Intec and Datacash, which was nearly a ten bagger.

US

The US portfolio rose 47.5% (52.6% in sterling) which is an even greater increase than the UK. This has been driven significantly by takeovers including Sonicwall, Virage Logic, Actel, Art Technology and ADC Telecom. Two of these rose over 100% in the year - ADC Telecom and Virage Logic and seven other holdings did too. In US\$ terms, the percentage rises were as follows: MIPS +259%, Finisar +211%, Silicon Image +186%, MRV +151%, Support.com +147%, Radware +145% and Alliance Fiber +172%. MIPS has a similar business model to Arm, Imagination, Ceva and Virage Logic. They all receive royalties when their IP is designed in. Finisar and MRV are fibre component makers. The excess network build out in 2000 was accompanied by a bubble in fibre optics. The growth in internet traffic is leading to network capacity constraints and the fibre optic component market has consolidated, so sensible margins are now in sight. Finisar and MRV have benefited from this. Radware and F5 have both been outstanding contributors to the portfolio over the last two years supplying application delivery controllers. The latter was acquired in April 2008 when it dipped into the Herald size remit at a price of \$18.7 per share at \$2/£, and was sold in March at c \$70 and c \$1.50/£, when the market capitalisation was \$6bn. By the year-end it had risen further to \$130.16! There are signs of the momentum players re-emerging, and some of the larger smaller companies are now quite expensive, while others are still in the shade. To a degree this applies in the UK. Rarely have I seen such a two tier market, but it provides switching opportunities. The game is to spot the companies before they hit the radar screen and sell into the rush. Overall the US portfolio is now on its historic valuation premium making further relative returns more challenging than 2010.

Far East

After the 136.8% increase in the Asia Pacific portfolio in 2009, as growth returned to the global economy, the Asian portfolio had a muted 2010 with the Korean IT index down 2.1% and the Taiwan Taiex index up 3.6% in local currency terms. Sterling adjusted returns are more respectable in both markets with the Herald portfolio returning 27.5% (KOSDAQ IT 5.3%, Taiex Electron 17.7%). Herald has continued with the policy of avoiding investment in the Japanese market, believing the limited opportunities within the smaller companies arena do not justify the specialist resources required. JASDAQ sits at less than half the peak value of 2006.

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MANAGER'S REPORT (continued)

Following the market movements in 2010, the key Asian technology stock markets are trading at p/e's of around 10x-12x - a more normal level of discount to the rest of the portfolio and broadly appropriate given the low margin, cyclical and capital intensive nature of companies in the region.

Europe

The European portfolio is small at £12m, but has risen 20.9% (17.7% in sterling). Highlights include the final sale of Logitech and United Internet, which have been trusty stalwarts over the years. Logitech was acquired in 1995 and returned over 10x (SFr14m), and United Internet I luckily managed to pick out of a great deal of Neuer Markt dross in October 1999. This has returned 5x yielding Euro8m profit. The best return for 2010 has been Nordic Semiconductor at +133%.

Sector Background

The internet is clearly the killer application, but if 2009 was the year of the mobile internet, 2010 has seen another kicker with Android and the iPad to the fore. Behind the end products the drivers have included multi-threading graphics, processors, capacitive touchscreens, mifi, flash memory (CML the best % rise in the portfolio supplies flash controllers to Cisco and Juniper), baseband IP, infiniband, 3D TV, virtualisation in the data centre, applications and online content-internet TV, eReaders, iNewspapers, and many more. SAAS software models have demonstrated durability.

P/E of stocks profitable in 2009	UK	USA	EMEA	Asia Pac	Total
2009:	16.3 x	30.4 x	19.5 x	16.3 x	18.3 x
2010:	15.0 x	25.5 x	19.2 x	12.2 x	16.4 x
2011:	13.1 x	20.4 x	14.6 x	10.1 x	14.0 x

P/E of all stocks with estimates	UK	USA	EMEA	Asia Pac	Total
2009:	32.0 x	67.8 x	23.6 x	27.0 x	35.9 x
2010:	16.7 x	27.2 x	19.7 x	11.8 x	18.1 x
2011:	13.3 x	20.3 x	14.4 x	9.5 x	14.3 x

It is difficult to be as positive as previously when the assets have risen strongly two years running and the economic flaws remain. Nevertheless, it is extremely encouraging that the valuation of the portfolio in p/e terms at the end of 2010 is similar to that at the end of 2009. Further profits growth is expected in 2011 albeit at a more modest rate than a year which included some holdings where profits recovered from a dip in 2009. When I compare our sector with alternative sector choices, I remain enthused. Cash generation is key. I cannot think of another sector outside TMT where companies can repeatedly generate such high margins and cash. We constantly seek investments with pricing power that enables premium margins, either through technical leadership, or a defensible market position and the technology sector has a plethora of such companies. The Far East is in general conspicuously different and generally has the low margin subcontract manufacturing. I continue to feel safer in technology stocks in US and UK at this juncture!

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MANAGER'S REPORT (continued)

Performance Attribution (in sterling terms) (unaudited)

Equity Markets	Comparative index allocation		Herald asset allocation		Performance*		Contribution to relative return	Contribution attributable to:	
	01.01.10	31.12.10	01.01.10	31.12.10	Herald	Comparative Index		Stock selection	Asset allocation†
	%	%	%	%	%	%		%	%
UK	66.7	66.7	66.2	65.4	42.4	31.5	5.3	5.4	(0.1)
Europe ex. UK	-	-	3.4	2.6	17.8	-	(0.3)	-	(0.3)
USA	33.3	33.3	25.7	25.5	52.6	41.1	1.5	1.9	(0.4)
Asia Pacific ex. Japan	-	-	8.5	6.3	27.5	-	-	-	-
Emerging Markets	-	-	0.4	0.4	45.4	-	-	-	-
Bonds	-	-	7.7	4.2	5.8	-	(1.4)	-	(1.4)
Cash	-	-	4.7	8.0	2.8	-	(2.0)	-	(2.0)
Swap	-	-	(1.9)	(1.9)	n/a	-	(0.7)	-	(0.7)
Loans	-	-	(14.7)	(10.5)	1.4	-	3.5	-	3.5
Total	100.0	100.0	100.0	100.0	42.6	35.1	5.5	7.4	(1.8)

Past performance is not a guide to future performance.

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 42.6% against a comparative index return of 35.1% translates into a relative return of 5.5%, divide the portfolio return of 142.6 by the comparative index return of 135.1 and subtract one.

† Asset allocation includes the contribution attributable to currency movements.

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Statistics and Performance Report

	At inception 16 February 1994	At 31 December 2009	At 31 December 2010	Performance since 31 December 2009	Performance since inception
NAV per share	98.7p	420.6p	593.8p	41.2%	501.6%
Share price	90.9p	337.8p	483.0p	43.0%	431.4%
FTSE 100 Index	3,417.7	5,412.9	5,899.9	9.0%	72.6%
HGSC Index plus AIM (capital gains ex. investment companies)	1,750.0	2,838.2	3,650.8	28.6%	108.6%
Russell 2000 (small cap) Technology Index (in sterling terms) [†]	688.7*	678.5	957.3	41.1%	39.0%

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

† The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents. The rebased index is used from 31 December 2008 onwards.

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

Past performance is not a guide to future performance.

Portfolio Performance for the 12 months to 31 December 2010

Equity markets	Performance (total return) %
UK	42.4
Europe ex. UK	17.8
USA	52.6
Asia Pacific ex. Japan	27.5
Emerging Markets	45.4
Fixed Interest	5.8

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HERALD INVESTMENT TRUST plc

The following is the unaudited preliminary statement for the year to 31 December 2010 which was approved by the Board on 15 February 2011. No dividend is payable for the year (2009 – 0.30p).

INCOME STATEMENT

	For the year ended 31 December 2010 (unaudited)			For the year ended 31 December 2009 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	-	137,953	137,953	-	139,718	139,718
Currency gains	-	347	347	-	311	311
Income (note 3)	7,277	-	7,277	6,077	-	6,077
Investment management fee	(3,966)	-	(3,966)	(2,773)	-	(2,773)
VAT recovered (note 4)	-	-	-	292	-	292
Other administrative expenses	(299)	-	(299)	(313)	-	(313)
Net return before finance costs and taxation	3,012	138,300	141,312	3,283	140,029	143,312
Finance costs of borrowings	(2,816)	-	(2,816)	(2,875)	-	(2,875)
Net return on ordinary activities before taxation	196	138,300	138,496	408	140,029	140,437
Tax on ordinary activities	(154)	-	(154)	(84)	-	(84)
Net return on ordinary activities after taxation	42	138,300	138,342	324	140,029	140,353
Net return per Ordinary share (note 5)	0.05p	171.87p	171.92p	0.39p	169.95p	170.34p
Dividend per Ordinary share (note 6)	-			0.30p		

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

HERALD INVESTMENT TRUST plc

BALANCE SHEET

	At 31 December 2010 (unaudited) £'000	At 31 December 2009 (audited) £'000
FIXED ASSETS		
Investments held at fair value through profit or loss	495,401	380,457
CURRENT ASSETS		
Debtors	1,316	1,593
Cash and short term deposits	39,497	18,551
	<u>40,813</u>	<u>20,144</u>
CREDITORS:		
Amounts falling due within one year (note 7)	(52,715)	(53,407)
Derivative financial instruments (note 7)	(8,937)	(6,298)
	<u>(61,652)</u>	<u>(59,705)</u>
Net current liabilities	(20,839)	(39,561)
TOTAL NET ASSETS	<u>474,562</u>	<u>340,896</u>
CAPITAL AND RESERVES		
Called-up share capital	19,978	20,263
Share premium	73,738	73,738
Capital redemption reserve	1,974	1,689
Capital reserve	376,931	243,064
Revenue reserve	1,941	2,142
SHAREHOLDERS' FUNDS	<u>474,562</u>	<u>340,896</u>
Net asset value per Ordinary share (including income)	593.85p	420.58p
Net asset value per Ordinary share (excluding income)	593.80p	420.19p
Ordinary shares in issue (note 8)	79,913,283	81,053,283

HERALD INVESTMENT TRUST plc

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2010 (unaudited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2010	20,263	73,738	1,689	243,064	2,142	340,896
Net return on ordinary activities after taxation	-	-	-	138,300	42	138,342
Shares bought back	(285)	-	285	(4,433)	-	(4,433)
Dividends paid during the year	-	-	-	-	(243)	(243)
Shareholders' funds at 31 December 2010	19,978	73,738	1,974	376,931	1,941	474,562

*Capital reserve as at 31 December 2010 included investment holding gains of £119,429,000.

For the year ended 31 December 2009 (audited)

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2009	20,852	73,738	1,100	109,072	5,948	210,710
Net return on ordinary activities after taxation	-	-	-	140,029	324	140,353
Shares bought back	(589)	-	589	(6,037)	-	(6,037)
Dividends paid during the year	-	-	-	-	(4,130)	(4,130)
Shareholders' funds at 31 December 2009	20,263	73,738	1,689	243,064	2,142	340,896

* Capital reserve as at 31 December 2009 included investment holding gains of £14,807,000.

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SUMMARISED CASH FLOW STATEMENT

	For the year ended 31 December 2010 (unaudited)		For the year ended 31 December 2009 (audited)	
	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,580		3,729
NET CASH OUTFLOW FROM SERVICING OF FINANCE FINANCIAL INVESTMENT		(2,823)		(2,871)
Purchase of investments	(77,590)		(59,037)	
Sale of investments	102,455		55,350	
NET CASH OUTFLOW FROM FINANCIAL INVESTMENT		24,865		(3,687)
EQUITY DIVIDEND PAID		(243)		(4,130)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		25,379		(6,959)
FINANCING				
Shares repurchased	(4,433)		(6,037)	
NET CASH OUTFLOW FROM FINANCING		(4,433)		(6,037)
INCREASE/(DECREASE) IN CASH		20,946		(12,996)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT				
Increase/(decrease) in cash for period		20,946		(12,996)
MOVEMENT IN NET FUNDS/(DEBT) IN PERIOD		20,946		(12,996)
NET DEBT AT 1 JANUARY		(31,449)		(18,453)
NET DEBT AT 31 DECEMBER		(10,503)		(31,449)
RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES				
Net return on ordinary activities before finance costs and taxation		141,312		143,312
Gains on investments	(137,953)		(139,718)	
Currency gains	(347)		(311)	
Amortisation of fixed interest book cost	(19)		(5)	
Changes in debtors and creditors	394		225	
Income tax suffered	-		(1)	
Overseas tax suffered	(154)		(84)	
Realised currency profit	347		311	
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,580		3,729

HERALD INVESTMENT TRUST plc

DISTRIBUTION OF ASSETS (unaudited)

	At 31 December 2010 %	At 31 December 2009 %
Equities:		
United Kingdom	58.2	56.7
Continental Europe	2.3	2.9
USA	22.7	22.0
Asia Pacific	5.5	7.3
Emerging Markets	0.4	0.3
Total equities	89.1	89.2
Sterling denominated bonds	3.8	5.0
US\$ denominated bonds	-	1.6
Net current assets	7.1	4.2
Total assets (before deduction of bank loans and derivative financial instruments)	100.0	100.0

HERALD INVESTMENT TRUST plc

NOTES (unaudited)

1. The financial statements for the year to 31 December 2010 have been prepared on the basis of accounting policies which are consistent with those set out in the Company's Annual Report and Financial Statements at 31 December 2009.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

2. **Related party transactions**

The Directors' fees for the year are detailed in the Directors' Remuneration Report contained within the Annual Report. No Director has a contract of service with the Company. During the year no Director was interested in any contract or other matter requiring disclosure under the Companies Act 2006.

Herald Investment Management Limited is appointed as investment manager 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 based on middle market prices. The management fee is levied on all assets except the holding in Herald Ventures II Limited Partnership managed by Herald Investment Management Limited.

	31 December 2010 £'000	31 December 2009 £'000
3. Income		
Income from investments and interest receivable	7,243	6,051
Other income	34	26
	<u>7,277</u>	<u>6,077</u>

4. **VAT recovered**

In 2007 the European Court of Justice ruled that investment trust management fees should be exempt from VAT.

In the year to 31 December 2009, £292,000 of VAT together with £171,000 of interest was received by the Company in respect of the repayment claims for the period from 1994 to 1996.

Herald Investment Trust plc has joined a case which has recently been brought against HMRC to seek to recover the amounts relating to the period 1997 to 2000 together with interest on a compound basis. No VAT or related interest recovery has been accrued or recognised as a contingent asset as the outcome of the case is expected to remain uncertain for several years.

	31 December 2010 £'000	31 December 2009 £'000
5. Net return per Ordinary share		
Revenue return	42	324
Capital return	138,300	140,029
Total return	<u>138,342</u>	<u>140,353</u>

Net return per Ordinary share is based on the above totals of revenue and capital and on 80,465,858 Ordinary shares (2009 – 82,397,262) being the weighted average number of Ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

HERALD INVESTMENT TRUST plc

NOTES (unaudited) (Ctd)

	2010	2009	2010	2009
			£'000	£'000
6. Ordinary Dividends				
Amounts recognised as distributions in the period:				
Previous year's final (paid 29 April 2010)	<u>0.30p</u>	<u>5.00p</u>	<u>243</u>	<u>4,130</u>
Set out below are the total dividends payable in respect of the financial year, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year ended 31 December 2010 is £42,000 (2009 - £324,000). The Directors do not propose a dividend for the year (2009 – 0.30p).				
Amounts paid and proposed in the period:				
Proposed final dividend per Ordinary share	<u>-</u>	<u>0.30p</u>	<u>-</u>	<u>243</u>
7. The Company has a £50 million multi-currency variable rate loan facility with The Royal Bank of Scotland plc, which comprises two £25 million tranches expiring on 31 May 2011 and 2013.				
At 31 December 2010, there were outstanding drawings of £50 million (2009 – £50 million). Interest on the loans is payable in quarterly instalments in January, April, July and October. The estimated repayment value of the loan at 31 December 2010 was £50 million. The indicative costs of repaying the loan as at 31 December 2010 were not material in the context of the above figures.				
The interest on £50 million of this facility has been fixed for the long term through a 30 year interest rate swap but may vary on periodic renewals of the debt facility to the extent that the mark up over LIBOR charged by a lending bank varies. The fair value of the interest rate swap contract at 31 December 2010 was an estimated liability of £9 million (2009 – £6 million) which was based on the marked to market value.				
8. At the Annual General Meeting in April 2010, Shareholders granted the Company authority to purchase shares in the market up to 12,115,409 Ordinary shares (equivalent to 14.99% of its issued share capital at that date). In the year to 31 December 2010, a total of 1,140,000 (2009 - 2,354,840) Ordinary shares with a nominal value of £285,000 (2009 – £588,710) were bought back at a total cost of £4,433,000 (2009 – £6,037,000). At 31 December 2010 the Company had authority to buy back a further 11,205,409 Ordinary shares. Under the provisions of the Company's Articles share buy-backs are funded from the capital reserve. The Company does not have any externally imposed capital requirements.				
9. During the period transaction costs on purchases amounted to £422,000 (2009 - £339,000) and transaction costs on sales amounted to £368,000 (2009 - £141,000).				
10. The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2010. The financial information for 2009 is derived from the statutory accounts for 2009 which have been delivered to the Registrar of Companies. The Auditors have reported on the 2009 accounts; their report was unqualified and it did not contain a statement under sections 495 to 497 of the Companies Act 2006. The audit report for the financial statements for the year ended 31 December 2010 has yet to be signed but it is expected that the statutory accounts for 2010 will be finalised on the basis of the financial information presented in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.				
11. The Report and Accounts for the year ended 31 December 2010 will be available on the Managers' website www.heralduk.com [†] on or around 10 March 2011.				
None of the views expressed in this document should be construed as advice to buy or sell a particular investment.				

[†]Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.