

Stock Exchange Announcement

Herald Investment Trust plc

Results for the six months ended 30 June 2012

The following is the unaudited Half-Yearly Financial Report for the six months to 30 June 2012.

Responsibility Statement

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- b) the Chairman's Review includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, and their impact on the financial statements and a description of principal risks and uncertainties for the remaining six months of the year); and
- c) the Half-Yearly Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein – see note 3).

By order of the Board

Julian Cazalet
Chairman
24 July 2012

Chairman's Review

In marked contrast to the macroeconomic situation and the difficulties in the financial sector, the first half of 2012 has proved to be a benign environment for the portfolio companies in our chosen sector. Generally solid progress has been made in the investments in the UK and the US. The European portfolio has benefited from a flurry of takeover rumours. Our Far East portfolio companies have been the most challenged, reflecting the volume-sensitive, price-competitive nature of the manufacturing sector in Asia. Overall, this progress has been reflected in an appreciation in the net asset value per share of 7.8%.

The total return for the UK portfolio was 9.1%, marginally ahead of the broader Numis Smaller Companies Index return of 7.6% (formerly the HGSCI). The sterling return in North America was 8.2% against a sterling return of 3.4% for the Russell 2000 Technology Index. The R2000 Technology smaller companies index lagged the R1000 Technology larger companies index by 7.9%, which is an interesting continuation of the trend of the second half of 2011, so that the underperformance of smaller companies over a year exceeds 20%. However, this outperformance is accounted for by Apple alone. Our small exposure to Europe rose by 16.9% in sterling, reflecting strong performances primarily resulting from takeover speculation in three companies – Opera Software (Norway), LBI (Holland) and Hologram Industries (France), and some recovery from last year's poor performance. The Far East portfolio continued to lag, falling 0.2% in sterling terms.

The enthusiasm with which some investors have directed equity investment towards territories with growing GDP does not, from the perspective of a smaller companies global technology fund with 'bottom-up analysis company by company', seem rational. While we continue to invest in companies that are pre-profitability we seek investments in companies which have pricing power, and can deliver cash generative profits growth either currently or in due course. Furthermore we value a cultural and regulatory environment where those returns will be delivered to outside equity shareholders. From this perspective the UK and US both have more appealing investment opportunities than the economic numbers might suggest, particularly in a sector which supplies global markets. In the UK the evaporation of pension fund and insurance company allocations to equities is a mixed blessing for Herald. On the one hand it has enabled investments to be made at attractive valuations; on the other hand the lack of the corporate oversight that these investors used to provide so professionally is evident in such matters as the rise in Directors' remuneration. The banks have taken much blame for squeezing the supply of credit to small companies. Herald's stock in trade has been to provide equity to companies for whom bank debt is both inappropriate and unavailable. Since inception in 1994 Herald has raised net outside capital of £64m and has participated in primary placings for new shares, both initial public offerings and secondaries, in the UK for an aggregate value of £225m. It is evident that the demand from sensible investment opportunities exceeds the supply of capital to a much greater extent than has been the case hitherto. It is a cause of great concern as far the UK economy is concerned, if not for Herald for the time being. In terms of fund flows, net sales of £12.6bn of institutional assets from the UK stock market in the first quarter of 2012 is the second highest on record. At least in terms of stock overhang this class of shareholder has largely exited the share registers of Herald's investee companies as well as the Trust's own register. Similarly hedge funds have evaporated from the registers of smaller companies. It appears that initially hedge funds masked the declining institutional ownership, but were only ever transient traders. Takeovers have continued to provide a steady flow of liquidity.

The TMT space in which we invest has both defensive and aggressive characteristics. Some of the portfolio has a utility-type profile, where revenue is derived on a recurring basis for mission critical purposes. At the other end of the spectrum there are high risk investments in early stage companies with potentially disruptive technologies. The former category provides solid performance, while the latter category has over the years delivered some shooting stars. The star performers in this half year period have been Mellanox, an Israeli based NASDAQ listed company, which is the dominant supplier of infiniband high speed interconnection solutions used within the datacentre, and Bango which has a service for enabling billing for content purchases on mobile phones through the phone service providers. It has signed up customers such as Facebook and Amazon and is UK based. In between are companies that offer cost effective solutions to the corporate and the consumer alike.

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Chairman's Review (ctd)

After two years of particularly strong dividend growth in the portfolio (+35% in 2010 and +37% in 2011) there has been a small decline in the first half, reflecting timing and strategic issues rather than any underlying negative trend. As usual no interim dividend will be paid.

The apparent normality seen in trading conditions has unquestionably been enabled by the fiscal and monetary looseness seen around the world, and in Herald's core markets of the US and the UK in particular. Daily we question the sustainability of this and how the structural flaws might be addressed. On balance fundamentals and valuations are sufficiently compelling to lead us to continue to be fully invested, with the ability to use leverage more fully if there is an air pocket caused by a dislocation in Europe, China or elsewhere.

Julian Cazalet
Chairman
24 July 2012

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Summary of Performance

	At inception 16 February 1994	At 31 December 2011	At 30 June 2012	Performance since 31 December 2011	Performance since inception
NAV per share	98.7p	563.7p	607.8p	7.8%	515.8%
Share price	90.9p	455.0p	478.9p	5.3%	426.8%
FTSE 100 Index	3,417.7	5,572.3	5,571.2	(0.0%)	63.0%
NSCI plus AIM (capital gains ex. investment companies)	1,750.0	3,101.6	3,298.6	6.4%	88.5%
Russell 2000 (small cap) Technology Index (in sterling terms)††	688.7*	880.9	909.7	3.3%	32.1%

* 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 has been used from 31 December 2008 onwards.

The portfolio comparative index against which performance is measured is 2/3 Numis Smaller Companies Index (previously Hoare Govett Smaller Companies Index) plus AIM (capital gains ex. investment companies) and 1/3 Russell 2000 (small cap) Technology Index (in sterling terms).

Past performance is not a guide to future performance.

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Income Statement (unaudited)

	For the six months ended 30 June 2012			For the six months ended 30 June 2011			For the year ended 31 December 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on sales of investments	-	2,573	2,573	-	15,912	15,912	-	33,612	33,612
Movements in investment holding gains/(losses)	-	32,493	32,493	-	13,368	13,368	-	(47,204)	(47,204)
Fair value movement on interest rate swap	-	312	312	-	1,077	1,077	-	(11,420)	(11,420)
Currency (losses)/gains	-	(45)	(45)	-	13	13	-	(66)	(66)
Income from investments and interest receivable	4,413	-	4,413	4,884	-	4,884	9,171	-	9,171
Investment management fee (note 3)	(2,464)	-	(2,464)	(2,502)	-	(2,502)	(4,752)	-	(4,752)
Other administrative expenses	(165)	-	(165)	(179)	-	(179)	(350)	-	(350)
Net return before finance costs and taxation	1,784	35,333	37,117	2,203	30,370	32,573	4,069	(25,078)	(21,009)
Finance costs of borrowings	(1,511)	-	(1,511)	(1,456)	-	(1,456)	(2,978)	-	(2,978)
Net return on ordinary activities before taxation	273	35,333	35,606	747	30,370	31,117	1,091	(25,078)	(23,987)
Tax on ordinary activities	(67)	-	(67)	(64)	-	(64)	(144)	-	(144)
Net return on ordinary activities after taxation	206	35,333	35,539	683	30,370	31,053	947	(25,078)	(24,131)
Net return per ordinary share (note 4)	0.26p	44.42p	44.68p	0.85p	38.01p	38.86p	1.19p	(31.43p)	(30.24p)
Weighted average number of ordinary shares in issue during each period	79,551,992			79,902,592			79,799,598		

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

All revenue and capital items in this 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.

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Balance Sheet (unaudited)

	At 30 June 2012 £'000	At 30 June 2011 £'000	At 31 December 2011 £'000
Fixed assets			
Investments held at fair value through profit or loss	532,936	540,650	488,689
Current assets			
Debtors	2,276	1,472	1,947
Cash and short term deposits	18,032	23,107	30,021
	20,308	24,579	31,968
Creditors:			
Amounts falling due within one year (note 6)	(51,098)	(52,886)	(51,001)
Derivative financial instruments (note 6)	(20,045)	(7,860)	(20,357)
	(71,143)	(60,746)	(71,358)
Net current liabilities	(50,835)	(36,167)	(39,390)
Total net assets	482,101	504,483	449,299
Capital and reserves			
Called up share capital	19,830	19,924	19,924
Share premium	73,738	73,738	73,738
Capital redemption reserve	2,122	2,028	2,028
Capital reserve	384,114	406,169	350,721
Revenue reserve	2,297	2,624	2,888
Shareholders' funds	482,101	504,483	449,299
Net asset value per ordinary share (including current period income)	607.77p	632.99p	563.75p
Net asset value per ordinary share (excluding current period income)	607.51p	632.14p	562.56p
Ordinary shares in issue (note 7)	79,323,283	79,698,283	79,698,283

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Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six months ended 30 June 2012

	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 2012	19,924	73,738	2,028	350,721	2,888	449,299
Net return on ordinary activities after taxation	-	-	-	35,333	206	35,539
Shares bought back (note 7)	(94)	-	94	(1,940)	-	(1,940)
Dividends paid during the year (note 5)	-	-	-	-	(797)	(797)
Shareholders' funds at 30 June 2012	19,830	73,738	2,122	384,114	2,297	482,101

For the six months ended 30 June 2011

	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 2011	19,978	73,738	1,974	376,931	1,941	474,562
Net return on ordinary activities after taxation	-	-	-	30,370	683	31,053
Shares bought back (note 7)	(54)	-	54	(1,132)	-	(1,132)
Shareholders' funds at 30 June 2011	19,924	73,738	2,028	406,169	2,624	504,483

For the year ended 31 December 2011

	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 2011	19,978	73,738	1,974	376,931	1,941	474,562
Net return on ordinary activities after taxation	-	-	-	(25,078)	947	(24,131)
Shares bought back (note 7)	(54)	-	54	(1,132)	-	(1,132)
Shareholders' funds at 31 December 2011	19,924	73,738	2,028	350,721	2,888	449,299

* The capital reserve as at 30 June 2012 includes investment holding gains of £104,718,000 (30 June 2011 – £132,797,000; 31 December 2011 – £72,225,000).

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Condensed Cash Flow Statement (unaudited)

	For the six months ended 30 June 2012 £'000	For the six months ended 30 June 2011 £'000	For the year ended 31 December 2011 £'000
Net cash inflow from operating activities	1,734	2,029	3,547
Net cash outflow from servicing of finance	(1,520)	(1,492)	(2,935)
Financial investment			
Purchase of investments	(31,586)	(54,344)	(89,449)
Sale of investments	22,120	38,549	80,493
Net cash outflow from financial investment	(9,466)	(15,795)	(8,956)
Equity dividend paid (note 5)	(797)	-	-
Net cash outflow before financing	(10,049)	(15,258)	(8,344)
Financing			
Shares repurchased (note 7)	(1,940)	(1,132)	(1,132)
Loans drawn down	-	25,000	25,000
Loans repaid	-	(25,000)	(25,000)
Net cash outflow from financing	(1,940)	(1,132)	(1,132)
Decrease in cash	(11,989)	(16,390)	(9,476)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in period	(11,989)	(16,390)	(9,476)
Movement in net debt in period	(11,989)	(16,390)	(9,476)
Net debt at 1 January	(19,979)	(10,503)	(10,503)
Net debt at 30 June/31 December	(31,968)	(26,893)	(19,979)
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	37,117	32,573	(21,009)
(Gains)/losses on investments	(35,378)	(30,357)	25,012
Currency losses/(gains)	45	(13)	66
Changes in debtors and creditors	23	(148)	(291)
Amortisation of fixed income book cost	43	19	(25)
Income tax (suffered)/repaid	(4)	6	4
Overseas tax suffered	(67)	(64)	(144)
Realised currency (loss)/profit	(45)	13	(66)
Net cash inflow from operating activities	1,734	2,029	3,547

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Top Twenty Equity Holdings at 30 June 2012 (unaudited)

Company	Business	Value £'000	% of total assets*
Imagination Technologies	Licenser of semiconductor intellectual property	21,938	4.0
SDL	Internet software and website globalisation services	18,888	3.4
Telecom Plus	Supplier of telecommunications services and other utilities	15,329	2.8
IDOX	Supplier of software solutions and services primarily to the UK public sector	12,051	2.2
Mellanox Technologies	Supplier of infiniband and ethernet semiconductors and connectivity solutions	11,575	2.1
Diploma	Distributor	10,488	1.9
Phoenix IT Group	IT support and business continuity service	10,124	1.8
OpSec Security	Developer of anti-counterfeiting technologies, services and software	9,934	1.8
Bango	Developer of mobile payment and customer analytics systems	8,953	1.6
NCC Group	Provides IT assurance and IT protection solutions	8,539	1.5
Advent Software	Developer of investment management software	8,296	1.5
Toumaz	Develops ultra-low power wireless telemetry technologies	8,022	1.5
ATMI	Develops process materials and technology for the semiconductor industry	7,865	1.4
Euromoney Institutional Investor	Business-to-business media group focused on international finance sector	7,838	1.4
Actuate	Developer of business intelligence software environment	7,023	1.3
M&C Saatchi	Global marketing services business	6,953	1.3
IQE	Supplier of advanced compound semiconductor wafers	6,561	1.2
Silicon Motion Technology	Designer and developer of memory and RF semiconductors	6,279	1.1
Allocate Software	Provider of workforce optimisation and corporate governance software	6,242	1.1
Fidessa Group	Developer of trading and portfolio management software	6,026	1.1
		198,924	36.0

* Total assets before deduction of bank loans and derivative financial instruments.

Distribution of Assets (unaudited)

	At 30 June 2012 %	At 30 June 2011 %	At 31 December 2011 %
Equities:			
United Kingdom	60.9	61.9	59.2
Continental Europe	1.9	2.0	1.8
USA	22.5	22.1	21.6
Asia Pacific	5.0	6.0	6.0
Emerging Markets	0.4	0.4	0.4
Total equities	90.7	92.4	89.0
Sterling denominated bonds	3.3	2.8	3.1
EUR denominated bonds	2.5	0.9	1.9
Net liquid assets	3.5	3.9	6.0
Total assets (before deduction of bank loans and derivative financial instruments)	100.0	100.0	100.0

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Notes to the Condensed Financial Statements (unaudited)

1. The condensed financial statements comprise the statements for the six months to 30 June 2012. They have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 December 2011 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Company's assets, the majority of which are investments in quoted securities, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. In accordance with the Company's Articles of Association, Shareholders have the right to vote on the continuation of the Company every three years with the next vote being in April 2013. Accordingly, the Half-Yearly Financial Report has been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.
2. The financial information contained within this Half-Yearly Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 December 2011 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.
3. **Related party transactions**
Herald Investment Management Limited is appointed investment manager under a management agreement which is terminable on twelve months' notice. Its annual remuneration is 1.0% of the Company's net asset value based on middle market prices, calculated on a monthly basis payable in arrears. The management fee is levied on all assets except the holding in Herald Ventures II Limited Partnership managed by Herald Investment Management Limited.

4. Net return per ordinary share	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
Revenue return on ordinary activities after taxation	206	683	947
Capital return on ordinary activities after taxation	35,333	30,370	(25,078)
Total net return	35,539	31,053	(24,131)
Weighted average number of ordinary shares	79,551,992	79,902,592	79,799,598

Net return per ordinary share is based on the above totals of revenue and capital and the weighted average number of ordinary shares in issue during each period.

There are no dilutive or potentially dilutive shares in issue.

Notes to the Condensed Financial Statements (unaudited) (ctd)

5. Dividends	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
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Amounts recognised as distributions in the period:

Final dividend for the year ended 31 December 2011 – 1.00p (2010 – Nil)	797	-	-
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No interim dividend will be declared.

6. 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 May 2013 (30 June 2011 - £50 million; 31 December 2011 - £50 million). The interest on this facility has been fixed for the long term through a 30 year interest rate swap, expiring in 2038, 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. At 30 June 2012 there were outstanding drawings of £50 million (30 June 2011 - £50 million; 31 December 2011 - £50 million). The fair value of the interest rate swap contract at 30 June 2012 was an estimated liability of £20.0 million (30 June 2011 - £7.9 million; 31 December 2011 - £20.4 million) which was based on the swap provider's valuation.
7. At the Annual General Meeting held on 17 April 2012 the Company's authority to buy back shares was renewed in respect of 11,946,772 ordinary shares (equivalent to 14.99% of its issued share capital at that date). In the six months to 30 June 2012 a total of 375,000 (30 June 2011- 215,000; 31 December 2011 – 215,000) ordinary shares of 25p each were bought back at a total cost of £1,940,000 (30 June 2011 - £1,132,000; 31 December 2011 - £1,132,000). At 30 June the Company had authority to buy back a further 11,571,772 ordinary shares.
8. During the period transaction costs on purchases amounted to £172,000 (30 June 2011 - £276,000; 31 December 2011 - £424,000) and transaction costs on sales amounted to £85,000 (30 June 2011 - £95,000; 31 December 2011 - £198,000).
9. **Principal risks and uncertainties**
The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising other price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. An explanation of these risks and how they are managed is contained in note 20 of the Company's Annual Report and Financial Statements for the year to 31 December 2011. The principal risks and uncertainties have not changed since the publication of the Annual Report which can be obtained free of charge from Herald Investment Management Limited and is available on the Managers' website: www.heralduk.com[†]. Other risks facing the Company include the following: regulatory risk (that the loss of investment trust status or a breach of applicable legal and regulatory requirements could have adverse financial consequences and cause reputational damage), operational/financial risk (failure of service providers accounting systems could lead to inaccurate reporting or financial loss), the risk that the discount can widen and gearing risk (the use of borrowings can magnify the impact of falling markets). Further information can be found on page 23 of the Annual Report and Financial Statements.
10. The Half-Yearly Financial Report will be available on the Managers' website www.heralduk.com[†] and will be posted to shareholders on or around 9 August 2012.

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.

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