

HERALD INVESTMENT FUND PLC

- The Herald Worldwide Fund

ANNUAL AUDITED REPORT for year ended 31 December 2002

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HERALD INVESTMENT FUND PLC

GENERAL INFORMATION

The following information is derived from the Prospectus.

Herald Investment Fund plc ("HIF") was incorporated on 12 February 1998 as an open ended, variable capital investment company under the laws of the Republic of Ireland and is listed on the Irish Stock Exchange. HIF is organised in the form of an umbrella fund under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 1989 (as amended) ("UCITS Regulations, 1989 (as amended)").

The Articles of Association provide for separate funds, each representing interests in defined portfolios of assets and liabilities which may be established from time to time with prior approval of the Central Bank of Ireland (the "Bank"). HIF has obtained approval from the Bank for the establishment of The Herald Worldwide Fund (the "Fund") and this Fund was launched on 3 April 1998.

INVESTMENT OBJECTIVE

The objective of the Fund is to seek to achieve capital growth by investing principally in securities of issuers in the technology, communications and multi-media sectors which in the view of the Investment Manager offer potential growth in excess of the average.

MEETING INVESTMENT OBJECTIVE

In pursuing its investment objective, the Fund may hold a number of financial instruments which comprise:

- * Equity shares, convertible shares, debt securities, ARIN's, depository receipts and investment companies held in accordance with the Fund's investment objective and policies;
- * Cash, liquid resources and short term debtors and creditors that arise directly from its operations; and
- * Forward exchange contracts. These are held in accordance with the Fund's investment objective and policies.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

The main risks arising from the Fund's financial instruments are set out below.

Political and/or Regulatory risks

The value of the Fund's assets may be affected by uncertainties such as international political developments, changes in government policies, taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Furthermore it should be noted that the legal infrastructure and accounting, auditing and reporting standards in certain countries in which investment may be made do not provide the same degree of investor protection or information to investors as would generally apply in major security markets. In particular, the Fund may be exposed to risks of expropriation, nationalism and confiscation of assets and changes in legislation relating to the permitted level of foreign ownership.

Currency risk

The base currency of the Fund is sterling, whereas investments may be acquired in a wide range of currencies, some of which may not be freely convertible currencies. It may not be practical or possible to hedge against the consequent currency risk and in certain instances the Investment Manager may not consider it desirable to hedge against such a risk. The Investment Manager will enter into hedging transactions at its sole discretion and solely for the purposes of efficient portfolio management.

Market risk

Some of the recognised exchanges on which the Fund may invest may prove to be illiquid or highly volatile from time to time and this may affect the price at which the Fund may liquidate positions to meet repurchase requests or other funding requirements. The trading and settlement practices on some of the recognised exchanges on which the Fund may invest, may not be the same as those in more developed markets, which may increase settlement risk and/or result in delays in realising investments made by the Fund. Where the Fund acquires or values securities on the over-the-counter market there is no guarantee that the Fund will be able to realise such securities at that valuation price due to the nature of the over-the-counter market.

HERALD INVESTMENT FUND PLC

GENERAL INFORMATION *continued*

PRICES

The price for buying and selling Shares in the Fund is represented by the Net Asset Value per Share. An initial charge of up to 3.5% of the Net Asset Value per Share may be payable directly to the Investment Manager.

A repurchase charge of 3% of the repurchase monies will be payable in respect of repurchases made within one year of subscription for Shares and 1% in respect of repurchases made within two years of subscription.

DEALING

Subscriptions and repurchases of Shares may be made on a dealing day. Unless otherwise determined by the Directors, every Thursday which is a business day, or the next succeeding business day if the foregoing is not a business day, shall be a dealing day.

The Administrator shall determine the Net Asset Value per Share of the Fund on each dealing day in accordance with the Articles and by reference to the last quoted trade prices as of close of business on the relevant market on the business day preceding the dealing day.

Applications for Shares and repurchase orders must be received by the Administrator by 5:00pm (Irish time) on the business day preceding any dealing day. Applications received after 5:00pm (Irish time) will be dealt with on the next succeeding dealing day. Applications should be made to the Administrator:

State Street Fund Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

Tel: + 353-1-8538300

Fax: + 353-1-8538489

DIVIDENDS

The Fund will pay a distribution in April of each year in an amount not less than 85 per cent of the Fund's net income, where sufficient net income is available for distribution.

MINIMUM SUBSCRIPTION

The minimum initial investment requirement of the Fund is GBP10,000 and each subsequent investment must be a minimum of GBP5,000.

SIGNIFICANT EVENTS DURING THE YEAR

There were no significant events during the year.

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2002

The Directors present herewith their report together with the audited financial statements for the year ended 31 December 2002.

Results and Business Activities

The results of operations for the year are set out in the Statement of Total Return on page 19. Regarding the business activities of the Fund during 2002 please refer to the Investment Manager's Report on pages 10 to 13.

Dividends

No dividend is proposed for the year ended 31 December 2002.

Directors

The Directors of the Fund are as follows:

Alan Jeffers (Irish)

Mr Jeffers (Chairman) is a chartered accountant and former council member of the Institute of Chartered Accountants in Ireland. Mr Jeffers was previously Managing Director of Avenue Investment Company, a venture capital investor in Ireland, and Financial Controller and Assistant Managing Director of Jefferson Smurfit Group plc from 1968 to 1973. He is a director of Dipcot Holdings Limited, Banking Automation Limited and several biotechnology companies and companies operating in the International Financial Services Centre.

William Backhouse (British)

Mr Backhouse is a chartered accountant. He joined the corporate finance department of Barings in 1970 and from 1984 until he retired in 1993, he was a director of Baring Asset Management. He is a director of JP Morgan Fleming Worldwide Income Investment Trust plc, of Essex Rivers Healthcare NHS Trust and of ING Real Estate Management Group (UK) Limited. He is Chairman of the Investors' Committee of Lionbrook Property Partnership and of the Advisory Committees of ING UK Residential Fund and of BH&S Residential Property Fund. Mr Backhouse is the Non-Executive Chairman and a shareholder of Herald Investment Management Limited.

David Boyle (British)

Mr Boyle worked for Morgan Grenfell from 1965 to 1982 in a number of capacities including corporate finance and, from 1977, asset management. In 1982, he joined the asset management subsidiary of Rowe & Pitman and, following that firm's merger with Mercury Securities in 1986, became a director of Mercury Asset Management plc. He retired in 1997, and is currently a member of the Advisory Committee of ING UK Residential Fund and of BH&S Residential Property Fund and a director of or consultant to other investment companies and funds.

Justin Egan (Irish)

Mr Egan is a chartered accountant and is Head of Market Data Services within State Street International (Ireland) Limited. He previously held other positions with SSIIL including Head of Fund Accounting and Financial Controller. Prior to joining State Street International (Ireland) Limited in 1993, Mr Egan worked for KPMG for four years. He is a director of a number of Irish investment companies.

Directors' and Secretary's Interests in Shares and Contracts

The number of Shares held by Directors at the year end was as follows :

	2002	2001
William Backhouse and connected persons	10,821.27 Shares	10,821.27 Shares
David Boyle and connected persons	12,182.21 Shares	13,540.29 Shares

None of the other Directors had interests in the Shares of the Fund at 31 December 2002 or at any time during the financial year. None of the Directors has a service contract with the Fund.

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2002 *continued*

Significant events since the year end

Pursuant to an agreement entered into for the sale of certain parts of Deutsche Bank AG's Global Security Services business, the Administrator and Custodian was acquired by the State Street Corporation on 31 January 2003. Deutsche International Fund Services (Ireland) Limited is now known as State Street Fund Services (Ireland) Limited (the "Administrator") and Deutsche International Custodial Services (Ireland) Limited is now known as State Street Custodial Services (Ireland) Limited (the "Custodian").

State Street Corporation is a leading world-wide specialist in providing sophisticated global investors with investment servicing and investment management. State Street is headquartered in Boston, Massachusetts, U.S.A. and trades on the New York Stock Exchange under the symbol "STT".

On 30 January 2003 William Backhouse and connected persons acquired a further 1,776.2 Shares in the Herald Worldwide Fund.

Books of account

The measures taken by the Directors to secure compliance with the Fund's obligation to keep proper books of account are the use of appropriate systems and procedures, which are carefully implemented by the Administrator. The books of account are kept at Guild House, Guild Street, IFSC, Dublin 1, Ireland.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Distributor Status

In respect of the year ended 31 December 2001, the Fund has obtained certification as a Distributing Fund as defined by the United Kingdom Income and Corporation Taxes Act 1988. It is intended that the Fund will apply for distributor status in respect of the year ended 31 December 2002.

On behalf of the Board of Directors

Mr Alan Jeffers

Mr Justin Egan

Date: 26 February 2003

HERALD INVESTMENT FUND PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish 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 Fund and of the profit or loss of the Fund for that period. In preparing those financial statements, the Directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Irish Companies Acts, 1963 to 2001 and the UCITS Regulations, 1989 (as amended). They are also responsible for safeguarding the assets of the Fund and in fulfilment of this responsibility, they have entrusted the assets of the Fund to the Custodian for safekeeping in accordance with the Memorandum and Articles of Association of the Fund. The Directors are responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board of Directors

Mr Alan Jeffers

Mr Justin Egan

Date: 26 February 2003

HERALD INVESTMENT FUND PLC

INDEPENDENT AUDITORS' REPORT to the Shareholders of Herald Investment Fund plc

We have audited the financial statements on pages 14 to 16 and 19 to 26 which have been prepared under the historical cost convention, as modified by the inclusion of investments at valuation, and the accounting policies set out on page 21.

Respective responsibilities of the Directors and Auditors in relation to the financial statements

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable Irish law and accounting standards generally acceptable in Ireland are set out on page 7 in the statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and auditing standards issued by the Auditing Practices Board applicable in Ireland. This report, including the opinion, has been prepared for and only for the company's shareholders as a body in accordance with Section 193 of the Companies Act 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001 and the European Communities (Undertakings for Collective Investments in Transferable Securities) Regulations 1989 (as amended). We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the Fund's financial statements are in agreement with the books of account. We also report to you our opinion as to:

- * whether the Fund has kept proper books of account; and
- * whether the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, information specified by law regarding Directors' remuneration and transactions is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund at 31 December 2002, and its results for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 1989 (as amended).

We have obtained all the information and explanations we consider necessary for the purpose of our audit. In our opinion, proper books of account have been kept by the Fund. The financial statements are in agreement with the books and records of the Fund.

In our opinion, the information given in the Directors' Report on pages 5 and 6 is consistent with the financial statements.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
George's Quay
Dublin 2
Ireland

Date: 26 February 2003

HERALD INVESTMENT FUND PLC

CUSTODIAN'S REPORT to the Shareholders of Herald Investment Fund plc

We have enquired into the conduct of Herald Investment Fund plc for the year ended 31 December 2002, in our capacity as Custodian to the Fund.

In our opinion, Herald Investment Fund plc has been managed in that year, in all material respects:

- a) in accordance with the limitations imposed on investment and borrowing powers of the Fund by the Memorandum and Articles of Association and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 1989 (as amended); and
- b) otherwise in accordance with the provisions of the Memorandum and Articles of Association and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 1989 (as amended).

State Street Custodial Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

Date : 26 February 2003

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2002

The defined remit for the Fund is to invest globally in information technology, communications and multi-media. The Investment Manager believes that this area of the economy offers growth greater than the world economy as a whole, and therefore offers attractive investment opportunities. In addition the Investment Manager offers focused specialist management. The Fund was launched in April 1998 with an initial net asset value of GBP13.0m. At 31 December 2002, the net asset value was GBP9.7m.

Capital performance for the 12 months to 31 December 2002

Herald Worldwide Fund NAV -50.6%

US

Russell 1000 Large Cap Technology -44.8%

Russell 2000 Small Cap Technology -51.4%

NASDAQ Composite -38.1%

S&P 500 -30.7%

Russell 2000 Small Cap -29.1%

UK

FTSE techMARK 100 -55.9%

FTSE Information Technology -66.8%

FTSE 100 -24.5%

FTSE Small Cap -29.4%

Europe

Neuer Markt -60.7%

Nouveau Marché -49.8%

NASDAQ Europe All Share -64.9%

FTSE EUROTOP 300 -27.6%

DAX -40.3%

CAC 40 -29.4%

Asia Pacific

JASDAQ -18.7%

Nikkei 225 -18.8%

Hang Seng -26.1%

All returns £STG adjusted.

Source: Herald Investment Management Limited, Bloomberg.

The returns above make poor reading for any investor, with this third year of declining markets being the worst yet as the last few ounces of confidence in 'tech' finally wasted away. However, a number of more positive factors have emerged and continue to strengthen: valuations are more reasonable and in some cases outstanding value; short lead-time capital expenditure items, such as storage, are showing signs of recovery, suggesting the start of a more positive trend; and government spend is robust. The period of restructuring undertaken by most companies within the Fund's remit, has on the whole brought operating expenses back in-line to deliver reasonable income from the current revenue run-rates. As such, whilst this period has been painful for both businesses and investors, corporate balance sheets have solidified and management teams are better placed to deliver returns to shareholders. Year-over-year comparisons for the third and fourth quarters were in general cheerless, however a significant number of companies within the Fund's remit reported better than expected results, and gave encouraging forward guidance. Our confidence that earnings expectations will be met or exceeded is higher than it has been for years. With three companies in the Fund announcing during February 2003 agreements to be acquired (all-cash transactions, each at a considerable premium), our belief that there is significant value out there is reinforced.

The Year In Review

The one area of strength for much of the year was the consumer. Low interest rates led to significant re-financing - especially in the US where long-term fixed-rate mortgages are the norm - leading to increased disposable income. Unfortunately, corporate confidence was weak, leading to a poor environment for discretionary spend, such as advertising and capital expenditure. Furthermore, the markets were spooked by financial scandals and bankruptcies - therefore questioning the quality of historically reported financial results - so the only way was down.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2002 *continued*

By the spring, much of the gains from the previous end-of-year rally had been lost, the UK 'tech' sector being especially weak. One area of strength globally came from the semiconductor sector, which significantly outperformed during the first half of the year, helped by the strength in consumer spend as well as some re-stocking after inventory levels had been cut to the bone. On the other hand, the communications sectors – wireline voice especially, but also data – were quite weak.

First quarter results during April were uninspiring. It became clear that the year's revenue would be quite back-end loaded if companies were to meet expectations. With a major deterioration in sentiment and no real signs of a corporate capital expenditure recovery, the markets declined sharply. Smaller capitalisation technology stocks, which had been holding up quite well, suffered from lack of liquidity as retail and professional investors fled, compounded by distressed liquidations by insurance companies. By the summer, the robust general indices and even semiconductor stocks joined the worldwide decline, which, except for a significant bear-rally in August, continued into early October. Indeed, having performed so well at the beginning of the year, the semiconductor stocks fell so far and so fast that the sector quickly became the worst performing for the year, significantly underperforming 'tech' as a whole. Media performed relatively well for the year, but did not provide the support in the portfolio that we expected – surprising given the strength of consumer spend. After a weak first half, software stocks recovered significantly during the rally in the fourth quarter, such that the sector's performance for the year was similar to media. Another area of relative strength was electrical components, whereas the internet, electronics, and computer sectors were relatively weak.

In early summer, post 9/11 lows were tested across the board – and support level broke down. By the end of the summer, all European and North American stock market indices were at 4 or 5 year lows, with some areas of 'tech' far worse: the FTSE Information Technology Index fell back to levels not seen since the beginning of 1986, down 96% from its peak in March 2000, and 75% year-to-date. Suffering from a significant lack of visibility, combined with very little confidence in their ability to convert the sales pipeline owing to the incredibly tight corporate purse strings and high levels of last-minute contract cancellations, management felt unable to provide revenue and earnings guidance more than one or two quarters out.

Clearly it was taking much longer than originally anticipated for companies to reach the limits of the technology bought in bulk during the frothy period - a major factor being the economic slowdown - and hence be forced to extend or upgrade their hardware and software products. Corporate spend on new technology initiatives was cut sharply, unless there was a very clear and immediate ROI: the focus moved from using technology to drive revenue and returned to cutting costs, principally through productivity improvements. Unfortunately, whilst many companies quickly updated their sales presentations, removing the slide on 'Accelerate Your Revenue Growth' and replacing it with the slide 'Demonstrable ROI in 3 Months', the customers were far more discerning with their reduced IT budgets, with many managements more focused on the short-term effects of redundancy programmes than capital expenditure. Maintenance mode was well entrenched.

The rally in August was the first real sign that investors were getting interested in moving money back into 'tech', with the view that valuations were coming into line (i.e. share prices had been falling as fast or faster than earnings expectations, hence multiples were becoming attractive). However, as we moved into the autumn, concerns over the Middle East situation reinforced the view that earnings expectations were still fragile. Third quarter results and subsequent forward guidance, whilst not showing any signs of a rapid return to growth, did give the markets some confidence that the spending situation was not getting any worse (the potential for war aside) and that the benefits of restructuring were beginning to kick-in, hence giving renewed confidence in forward guidance. With value players shifting their focus back to the 'tech' sectors, money moved back in towards the end of the year and a significant rally occurred, as valuations had become oversold. Unfortunately, initial signs of a faltering consumer emerged during the holiday season, and the improved sentiment of the markets towards corporate spend was offset by increased concerns of weakening consumer spend. As such, the end of the year saw some of the autumn gains lost.

A major disappointment during the year for the Fund was the loss of access to the ARIN in January, when the broker who provided this instrument informed us that it was being restructured. A larger blow came when, not long after the ARIN facility was reinstated, the broker informed us that they were completely discontinuing the ARIN. The Fund's final ARIN investment was closed in November, and we are actively searching for an alternative product with similar properties. However, at this moment in time the Fund does not have access to this instrument.

Outlook

A significant fear for the last two years has been that there would be a worldwide synchronised cap-ex/consumer recession. The windfall of low interest rates and low inflation has helped maintain high levels of consumer confidence and consumer spend, which has provided welcome support for many companies within the Fund's remit. Whilst it now appears unlikely that this synchronised recession will occur, there is much evidence that the consumer is beginning to cut back, in part at least due to the

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2002 *continued*

high levels of consumer debt: only time will tell whether this ends up being a cooling off period or a full blown consumer recession. Concerns over the Middle East, North Korea and the price of oil, further add to the fragility in investor confidence. Interest rates are at historic lows, and after the major refinancing seen in the last two years, it is unlikely that any further rate cuts will have a significant positive impact on the consumer. With many companies in the Fund's remit declaring maiden dividends, or introducing/increasing share buyback activity as they can not find accretive ways to invest the cash in their own businesses, the indication is that lower interest rates will not necessarily fuel the corporate recovery.

During the bubble of the late 90s, 'tech' companies had been rewarded principally for high levels of revenue growth, even at the expense of the lines lower down on the P&L statement and with virtually no regard for the state of the balance sheet. Many companies took a long time to realise that the weak spending environment, with no end in sight, meant it was more important to protect their balance sheets and to generate free cashflow. As such, much of 2002 was categorised by companies slashing their cost base and writing down overvalued assets. Undoubtedly this prolonged restructuring has been a major distraction for management and employees, as well as investors, and has possibly contributed to the length of time it has taken for the market to bottom and become comfortable with future growth rates. On a positive note, many, if not most, companies within the Fund's remit have completed their restructuring plans, and have realigned the cost base with the assumption that there will be no major recovery in corporate IT spend during 2003. This is a much more agreeable foundation from which to build businesses. These companies are now lean where they were flabby, and they are now much more focused on profitability, cash generation, a strong balance sheet, and shareholder value.

Whilst initial evidence suggests there was not a major IT budget flush at the year end, stabilisation appears to have arrived, and expectations have come into line. The major disruption of reorganization is behind most companies, allowing them to focus on driving their businesses forward. Much, if not most, of the cost cutting has been in sales and marketing, rather than slashing R&D. As such, the quality companies are emerging from the 'tech' recession with new or updated products, ready to attract the IT dollars as and when they become available.

Given the downturn over the last three years, from both the decline of the 'tech' indices as well as reported revenues and profits, it is easy to believe that spend on software, semiconductors, semiconductor capital equipment, contract manufacturing, electronics, distribution, the Internet, communications and networking, computers, storage and security has gone permanently and across-the-board ex-growth. Whilst we do believe that certain sub-sectors are becoming increasingly cyclical as penetration reaches mature levels, there are other less mature markets which are returning to structural growth as corporate sentiment improves. Indeed, many companies within the remit, albeit the smaller ones in general, have continued to grow throughout the market downturn. Advances in storage and storage management, secure and higher bandwidth communications, semiconductors, as well as the associated sub-sectors which feed into these, are all undergoing significant change and therefore provide commercial opportunities. With processing power and computer memory cheaper than ever, new enterprise and consumer software applications are emerging to take advantage of this. Broadband data communication (wireless ethernet and GPRS as well as DSL and cable) is becoming more pervasive in both the home and the enterprise, again undoubtedly leading to new applications of this technology. Whilst we do not expect to see the overall growth rates seen at the end of the last century, we do believe that the shake-out of the last three years and the return to focusing on cash, profits and shareholder value will lead to a less volatile and more sustainable period of growth.

Without a doubt, a recovery in 'tech' spend and the return to growth will occur, as will investor confidence, but slowly. As such, it will be more important than ever to be stock selective across the entire remit. In the long run, quality will out. In the first three weeks of February, three holdings within the Fund - Azlan, Rolfe and Nolan, and Multex - had already announced agreements to be acquired, and in all three cases these were cash offers, each at a significant premium. With valuations at more interesting levels than they have been for many years, the Fund is almost fully invested and we expect this to remain the case for some time to come.

HERALD INVESTMENT FUND PLC

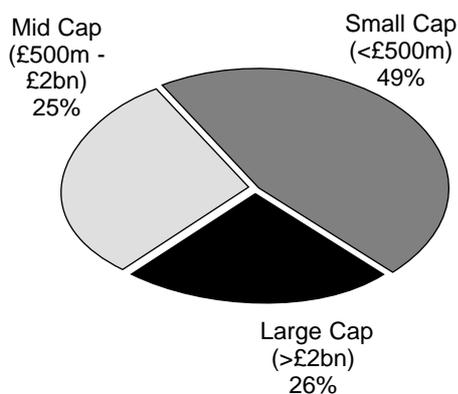
INVESTMENT MANAGER'S REPORT for the year ended 31 December 2002 *continued*

Portfolio Weightings

BREAKDOWN BY MARKET CAP 31 DECEMBER 2002

	31/12/01	31/12/02
Large Cap	31%	26%
Mid Cap	23%	25%
Small Cap	46%	49%

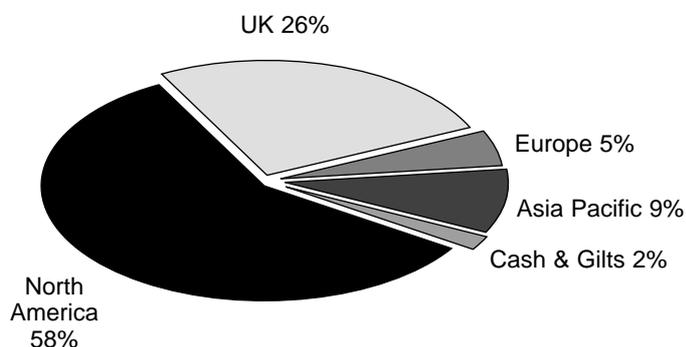
Source: Herald Investment Management Limited.



GEOGRAPHIC BREAKDOWN 31 DECEMBER 2002

	31/12/01	31/12/02
North America	51%	58%
UK	25%	26%
Europe	5%	5%
Asia Pacific	6%	9%
Cash & Gilts	13%	2%
ARIN	0%	0%

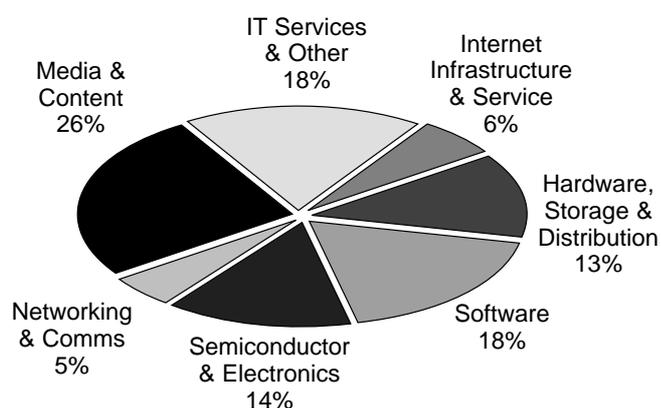
Source: Herald Investment Management Limited.



SECTOR SPLIT 31 DECEMBER 2002

	31/12/01	31/12/02
Semiconductor & Electronics	17%	14%
Networking & Communications	3%	5%
Media & Content	18%	26%
IT Services & Other	13%	18%
Internet Infrastructure & Services	3%	6%
Hardware, Storage & Distribution	14%	13%
Software	32%	18%

Source: Herald Investment Management Limited.



Herald Investment Management Limited
26 February 2003

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2002

NOMINAL	SECURITY	CLASSIFICATION	VALUE GBP	FUND%
AUSTRIA 0.28 % (2001:0.37 %)				
<i>COMMERCIAL SERVICES AND SUPPLIES</i>				
50,000	Plaut AG	(a)	26,724	0.28
CANADA 3.01 % (2001: 1.44 %)				
<i>SOFTWARE</i>				
20,000	Cognos Inc	(a)	291,322	3.01
FRANCE NIL (2001: 0.16 %)				
HONG KONG 1.93 % (2001: 1.64 %)				
<i>DIVERSIFIED TELECOMMUNICATION SERVICES</i>				
114,000	Asia Satellite Telecommunications Holdings Limited		83,085	0.86
<i>MEDIA</i>				
400,000	SCMP Group Limited		103,548	1.07
IRELAND 0.44 % (2001: 1.41 %)				
<i>INTERNET SOFTWARE AND SERVICES</i>				
24,000	Iona Technologies plc	(a)	42,487	0.44
ISRAEL 1.50 % (2001: NIL)				
<i>SOFTWARE</i>				
18,000	Check Point Software Technologies Limited	(a)	145,015	1.50
ITALY 1.80 % (2001: 1.62 %)				
<i>IT CONSULTING AND SERVICES</i>				
25,000	Reply SpA		173,706	1.80
JAPAN NIL (2001: 1.24 %)				
MALAYSIA 3.75 % (2001: 1.39 %)				
<i>MEDIA</i>				
370,000	Star Publications (Malaysia) Berhad		362,887	3.75
NORWAY 0.56 % (2001: 0.50 %)				
<i>COMMUNICATIONS EQUIPMENT</i>				
80,000	Nera ASA		53,797	0.56
SINGAPORE 0.77 % (2001: 0.31 %)				
<i>ELECTRONIC EQUIPMENT AND INSTRUMENTS</i>				
15,000	Venture Corporation Limited		74,667	0.77
TAIWAN 2.29 % (2001: 1.02 %)				
<i>SEMICONDUCTOR EQUIPMENT AND PRODUCTS</i>				
93,000	Realtek Semiconductor Corp		149,528	1.55
34,500	United Micro Electronics Corp		72,004	0.74

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2002 *continued*

NOMINAL	SECURITY	CLASSIFICATION	VALUE GBP	FUND%
UNITED KINGDOM 26.44 % (2001: 25.71 %)				
WARRANTS 1.92 % (2001: 1.65 %)				
<i>INVESTMENT COMPANIES</i>				
235,000	Herald Investment Trust plc		185,650	1.92
EQUITIES 24.52 % (2001: 24.06 %)				
<i>ELECTRONIC AND ELECTRICAL EQUIPMENT</i>				
30,000	Acal plc		150,750	1.56
110,000	Minorplanet Systems plc	(a)	134,750	1.39
<i>INVESTMENT COMPANIES</i>				
110,000	Herald Investment Trust plc		194,700	2.01
<i>MEDIA & PHOTOGRAPHY</i>				
480,000	Aegis Group plc		375,600	3.89
150,000	Taylor Nelson Sofres plc		228,000	2.36
<i>SOFTWARE & COMPUTER SERVICES</i>				
347,000	Azlan Group plc		393,845	4.07
375,000	Focus Solutions Group plc		54,375	0.56
60,000	Gresham Computing plc		36,750	0.38
32,000	Misys plc		56,320	0.58
550,000	Patsystems plc		66,000	0.68
270,300	Rolfe & Nolan plc		204,077	2.11
58,000	SurfControl plc		242,150	2.51
310,000	The Innovation Group plc		35,650	0.37
<i>SUPPORT SERVICES</i>				
800,000	Thomson Intermedia plc		120,000	1.24
<i>TELECOMMUNICATIONS SERVICES</i>				
400,000	PNC Telecom plc	(a)	78,000	0.81
UNITED STATES 54.77 % (2001: 50.03 %)				
<i>COMMUNICATIONS EQUIPMENT</i>				
40,000	MRV Communications Inc	(a)	26,586	0.28
<i>COMPUTERS AND PERIPHERALS</i>				
60,000	Advanced Digital Information Corp	(a)	250,078	2.59
22,000	EMC Corporation		83,906	0.87
<i>ELECTRONIC EQUIPMENT AND INSTRUMENTS</i>				
8,500	Arrow Electronics Inc		67,529	0.70
10,000	Black Box Corp	(a)	278,278	2.88
20,000	Flextronics International Limited	(a)	101,745	1.05
10,000	Jabil Circuit Inc		111,311	1.15
<i>INTERNET SOFTWARE AND SERVICES</i>				
20,000	Keynote Systems Inc	(a)	95,907	0.99
87,000	Multex.Com Inc	(a)	226,971	2.35
77,350	Onesource Information Service Inc	(a)	369,958	3.83
38,000	Verisign Inc	(a)	189,304	1.96

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2002 *continued*

NOMINAL	SECURITY	CLASSIFICATION	VALUE GBP	FUND%
UNITED STATES 54.77 % (2001: 50.03 %) <i>continued</i>				
<i>IT CONSULTING AND SERVICES</i>				
12,000	Electronic Data Systems Corp		137,375	1.42
8,000	Manhattan Associates Inc	(a)	117,573	1.22
<i>MEDIA</i>				
25,000	AOL Time Warner Inc		203,429	2.10
21,000	Comcast Corp	(a)	294,670	3.05
10,000	Getty Images Inc	(a)	180,514	1.87
15,000	Viacom Inc		379,775	3.93
<i>SEMICONDUCTOR EQUIPMENT AND PRODUCTS</i>				
21,500	Analog Devices Inc		318,781	3.30
32,500	Asyst Technologies Inc	(a)	148,379	1.54
18,000	Credence Systems Corp	(a)	104,317	1.08
12,000	Xilinx Inc	(a)	153,550	1.59
<i>SOFTWARE</i>				
10,000	Bea Systems Inc	(a)	71,247	0.74
358,000	Chordiant Software Inc	(a)	320,219	3.31
20,000	Citrix Systems Inc	(a)	153,053	1.58
10,500	Microsoft Corp	(a)	337,195	3.49
20,000	NetScout Systems Inc	(a)	54,041	0.56
30,000	RSA Security Inc	(a)	111,622	1.15
9,750	Serena Software Inc	(a)	95,629	0.99
26,750	THQ Inc	(a)	220,161	2.28
35,000	Wind River System Inc	(a)	89,133	0.92
TOTAL INVESTMENTS			9,427,623	97.54
Current assets			259,015	2.68
Total assets			9,686,638	100.22
Current liabilities			(21,549)	(0.22)
NET ASSETS			9,665,089	100.00
			2002	2001
Net Asset Value	GBP9,665,089		GBP23,801,071	GBP26,561,311
Number of Shares in issue	1,665,335		2,025,518	1,702,106
Net Asset Value per Share	GBP5.80		GBP11.75	GBP15.60
Classification				
(a) Transferable Securities dealt in on another regulated market.				
All other Transferable Securities are admitted to an official stock exchange listing.				
Analysis of Total Assets				% of Total Assets
Transferable Securities admitted to official stock exchange listing				48.72
Transferable Securities as described in classification (a) above				48.61
Other assets (cash/debtors)				2.67
				<u>100.00</u>

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2002

MAJOR PURCHASES	GBP VALUE
United Micro Electronics Corp	522,186
British Sky Broadcasting Group plc	346,780
The Innovation Group plc	318,636
Verisign Inc	307,507
Numerical Technologies Inc	281,581
Universal Access Global Holdings plc	276,300
Genesis Microchip Inc	244,776
THQ Inc	237,480
Check Point Software Technologies Limited	202,678
SurfControl plc	187,086
Realtek Semiconductor Corp	176,397
Electronic Data Systems Corp	175,148
Chordiant Software Inc	171,517
Manhattan Associates Inc	167,047
AOL Time Warner Inc	137,792
Thomson Intermedia plc	116,929
Citrix Systems Inc	104,641
IQE plc	103,334
Asia Satellite Telecommunications Holdings Limited	103,207
Misys plc	101,286
Bell Microproducts Inc	96,105
Aegis Group plc	92,989
Manugistics Group Inc	91,147
Advanced Digital Information Corp	84,140
Herald Investment Trust plc	82,658
Viacom Inc	82,597
Analog Devices Inc	65,757
Gresham Computing plc	55,643
Azlan Group plc	53,223

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2002 *continued*

MAJOR SALES	GBP VALUE
Anite Group plc	419,726
United Micro Electronics Corp	347,723
British Sky Broadcasting Group plc	324,523
Clear Channel Communications Inc	313,848
Azlan Group plc	309,838
Citrix Systems Inc	309,525
Acal plc	267,392
I-Cable Communications Limited	256,234
Ricoh Co Limited	246,822
Bea Systems Inc	216,305
Getty Images Inc	196,496
Sunplus Technology Co. Limited	182,250
Northamber plc	179,957
Oracle Corp	165,323
Daily Mail & General Trust	163,906
TTP Communications plc	161,563
Numerical Technologies Inc	155,059
Genesis Microchip Inc	139,238
Arrow Electronics Inc	125,038
Telemetrix plc	109,669
Chordiant Software Inc	98,144
Bell Microproducts Inc	97,439
Minorplanet Systems plc	95,193
Asyst Technologies Inc	92,714
IQE plc	92,125
PSD Group plc	85,991
Computer Horizons Corp	81,077
Akamai Technologies Inc	79,710
Universal Access Global Holdings plc	72,798
Teamtalk Media Group	72,000
Credence Systems Corp	70,420
Reply SpA	68,928

Note: Copies of all portfolio changes are available, free of charge, from the registered office of the Fund.

HERALD INVESTMENT FUND PLC

STATEMENT OF TOTAL RETURN for the year ended 31 December 2002

	Note	GBP	Year ended 31/12/02 GBP	GBP	Year ended 31/12/01 GBP
Net losses on investments during the year	7		(10,467,745)		(6,851,854)
Other losses	8		(22,667)		(194,527)
Gross income	9	79,297		225,009	
Withholding tax		(1,234)		(3,703)	
Expenses	10	<u>(254,314)</u>		<u>(313,129)</u>	
Net loss for the year			<u>(176,251)</u>		<u>(91,823)</u>
Total Return for the year			<u>(10,666,663)</u>		<u>(7,138,204)</u>
Equalisation	5		<u>423,282</u>		<u>(353,482)</u>
Net decrease in Shareholders' Funds from investment activities			<u><u>(10,243,381)</u></u>		<u><u>(7,491,686)</u></u>

On behalf of the Board of Directors

**Mr Alan Jeffers
Mr Justin Egan**

Date: 26 February 2003

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS for the year ended 31 December 2002

	GBP	Year ended 31/12/02 GBP	GBP	Year ended 31/12/01 GBP
Net assets at the start of the Year		23,801,071		26,561,311
Movement due to sales and repurchase of Shares				
Amounts received on sale of Shares	271,251		13,494,890	
less: Amounts paid on repurchase of Shares	<u>(4,163,852)</u>		<u>(8,763,444)</u>	
		(3,892,601)		4,731,446
Net decrease in Shareholders' Funds from investment activities		<u>(10,243,381)</u>		<u>(7,491,686)</u>
Net assets at the end of the year		<u><u>9,665,089</u></u>		<u><u>23,801,071</u></u>

On behalf of the Board of Directors

**Mr Alan Jeffers
Mr Justin Egan**

Date: 26 February 2003

HERALD INVESTMENT FUND PLC

BALANCE SHEET as at 31 December 2002

	Note	31/12/02 GBP	31/12/01 GBP
Portfolio of Investments	1(e)	<u>9,427,623</u>	<u>20,668,046</u>
Net current assets			
Debtors	11	8,061	84,227
Cash and bank balances	12	<u>250,954</u>	<u>3,087,046</u>
		259,015	3,171,273
Less			
Creditors	13	<u>(21,549)</u>	<u>(38,248)</u>
Net current assets		<u>237,466</u>	<u>3,133,025</u>
Net assets		<u>9,665,089</u>	<u>23,801,071</u>
Shareholders' Funds		<u><u>9,665,089</u></u>	<u><u>23,801,071</u></u>
Net Asset Value per Share		5.80	11.75

On behalf of the Board of Directors

Mr Alan Jeffers

Mr Justin Egan

Date: 26 February 2003

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002

1. Significant accounting policies

a) Basis of accounting

The financial statements are prepared under the historical cost convention as modified by the inclusion of securities at valuation. The financial statements are prepared in accordance with generally accepted accounting standards in Ireland, the UCITS Regulations (1989) (as amended) and, except for the treatment of taking to the Profit and Loss Account (Statement of Total Return) unrealised losses arising on the valuation of marketable investments, in accordance with the Companies Acts 1963 to 2001 (see note 2). The financial statements are prepared in GBP (Sterling).

b) Income recognition

Dividends are recognised as income on the dates the securities are first quoted "ex dividend" to the extent that information thereon is reasonably available to the Fund. Bank deposit interest and other income is accounted for on an accruals basis. Income which suffers a deduction of tax at source is shown gross of such withholding tax. Franked investment income (which comprises most of UK source dividend income) is shown net of the notional tax credit.

c) Realised gains and losses on investments

Realised gains and losses on sales of investments are calculated based on the average book cost of the investment in local currency. The foreign exchange gain or loss based on the translation of the original cost of the transferable securities is included in the net gains or losses on investments. The foreign exchange gain or loss arising on the translation of other assets is included in other gains or losses.

d) Unrealised gains and losses on investments

Unrealised gains and losses on investments arising during the year are included in net gains or losses on investments in the Statement of Total Return.

e) Valuation of securities

Equities and Warrants - Investments in equities and warrants are valued at last quoted trade prices at the year end.

f) Foreign exchange

Foreign currency assets and liabilities, including investments, are translated into GBP at the exchange rate prevailing at the year end.

Foreign exchange gains and losses arising between transaction and settlement dates on purchases or sales of investments are included in other gains/(losses) on investments in the Statement of Total Return.

g) Distribution policy

The Fund will declare and pay a distribution in April of each year in an amount not less than 85 per cent of the Fund's net income, where sufficient net income is available for distribution.

2. Basis of presentation of financial statements

The format of the financial statements is based upon the Statement of Recommended Practice - Financial Statements of Authorised Unit Trust Schemes issued by FSA (formerly IMRO) in January 1997 as, in the opinion of the Directors, this represents best accounting practice and reflects the nature of the Fund's investment business.

The format and certain workings of the financial statements have been adapted from those contained in the Companies (Amendment) Act 1986 so that, in the opinion of the Directors, they more appropriately reflect the nature of the Fund's investment business. The Profit and Loss Account is referred to as the Statement of Total Return, and the Cashflow Statement is referred to as the Statement of Movements in Shareholders' Funds, throughout the financial statements.

The information required by Financial Reporting Standard no. 3 "Reporting Financial Performance" to be included in a Statement of Total Recognised Gains and Losses and a Reconciliation of Movements in Shareholders' Funds is, in the opinion of the Directors, contained in the Statement of Total Return and the Statement of Movements in Shareholders' Funds on page 19. In arriving at the results for the year, all amounts in the Statement of Total Return on page 19 relate to continuing activities.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 *continued*

Unrealised losses are shown in the Statement of Total Return. This represents a departure from the Companies (Amendment) Act, 1986. In the opinion of the Directors, this treatment is necessary to fairly present the results of operations. The amount of unrealised losses at the year end is shown in note 7.

In the opinion of the Directors, the financial statements give the information required by the Companies Acts, 1963 to 2001.

3. Significant agreements

Investment Manager

Herald Investment Management Limited has been appointed to act as Investment Manager pursuant to the Investment Management Agreement. For this service, the Fund pays to the Investment Manager an annual fee payable monthly of 0.75% of the Net Asset Value ("NAV") of the Fund, accrued on each Dealing Day.

In addition, the Investment Manager is paid a performance fee annually in respect of each accounting period of the Fund at a rate of 10% per annum of the amount, if any, by which the NAV excluding performance fee at the end of the accounting period exceeds the target net asset value (110% of the opening NAV adjusted to take account of new subscriptions, repurchases or distributions) of the Fund over the relevant period. The opening NAV is the previous highest NAV as at the end of an accounting period or the NAV of the Fund as at the close of the initial offer period in the case of the first period or where this is greater than the previous highest NAV of the Fund. This fee is calculated and accrued at each valuation point.

Administrator

State Street Fund Services (Ireland) Limited has been appointed to act as Administrator pursuant to the Administration Agreement. For this service, the Fund pays to the Administrator a fee, accrued on each dealing day based on the NAV on each dealing day and payable monthly in arrears at the following rates:

Rate	NAV
0.15% p.a.	0 – GBP20 Million
0.125% p.a.	GBP20 Million – GBP50 Million
0.10% p.a.	GBP50 Million +

This is subject to a minimum fee of EUR6,000 per month per fund. The Administrator is also entitled to an annual fee of GBP10 per Shareholder account and a fee of GBP15 per issuance of contract for subscription of Shares.

Custodian

State Street Custodial Services (Ireland) Limited has been appointed Custodian to the Fund pursuant to the Custodian Agreement. For this service, the Fund pays to the Custodian a fee of 0.025% per annum of the NAV of the Fund. The Custodian's fee is paid monthly in arrears and is accrued on each dealing day based on the NAV of the Fund on each dealing day. In addition, the Custodian is entitled to a transaction charge of GBP30 per transaction and shall be reimbursed all sub-custodial and transactional fees and expenses which will be charged at normal commercial rates.

4. Taxation

The Fund qualifies as an investment undertaking as defined in Section 739B of the Taxes Consolidation Act 1997, as amended. It is not chargeable to Irish tax on its income and gains.

However, Irish tax may arise on the happening of a chargeable event in the Fund. A chargeable event includes any distribution payments to Shareholders or any encashment, redemption, transfer or cancellation of shares.

No Irish tax will arise on the Fund in respect of chargeable events in respect of: -

- (i) a Shareholder who is neither Irish resident nor ordinarily resident in Ireland for tax purposes at the time of the chargeable event, provided appropriate valid declarations in accordance with the provisions of the Taxes Consolidation Act, 1997, as amended, are held by the Fund, and
- (ii) certain exempted Irish resident shareholders who have provided the Fund with the necessary signed statutory declarations.

Dividends, interest and capital gains (if any) received on investments by the Fund may be subject to non-recoverable withholding tax imposed by the country from which the investment income/gains are received and such taxes may not be recoverable by the Fund or its Shareholders.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 *continued*

5. Equalisation

Income equalisation arrangements are applied in the case of Shares in the Fund. These arrangements are intended to ensure that the income per Share which is distributed in respect of the distribution period is not affected by changes in the number of Shares in issue during that period. The calculation of equalisation is based on net income and represents the income portion of the price of subscriptions/redemptions of Shares.

	Year ended 31/12/02 GBP	Year ended 31/12/01 GBP
Income deducted on sale of Shares	(48,634)	(978,265)
Income received on repurchase of Shares	471,916	624,783
	423,282	(353,482)

6. Net Asset Value per Share

The Net Asset Value per Share is determined by dividing the net assets by the total number of Shares in issue.

7. Net losses on investments during the year

The net losses on investments during the year comprise:

	Note	Year ended 31/12/02 GBP	Year ended 31/12/01 GBP
Proceeds from sales of investments during the year		5,789,491	11,930,695
Original cost of investments sold during the year		(9,367,471)	(14,839,267)
Losses realised on investments sold during the year	1(c)	(3,577,980)	(2,908,572)
Net unrealised appreciation/(depreciation) at the start of the year	1(d)	3,819,009	(124,273)
Net unrealised depreciation at the end of the year	1(d)	(10,708,774)	(3,819,009)
Net losses on investments during the year		(10,467,745)	(6,851,854)

8. Other losses

Other losses comprise:

		Year ended 31/12/02 GBP	Year ended 31/12/01 GBP
Foreign exchange losses on capital assets	1(f)	(22,667)	(194,527)

9. Gross income

		Year ended 31/12/02 GBP	Year ended 31/12/01 GBP
Income from investments	1(b)	44,558	78,621
Bond interest	1(b)	-	4,448
Bank interest	1(b)	34,558	134,244
Fixed Deposit Income	1(b)	181	7,696
		79,297	225,009

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 *continued*

10. Expenses

	Note	Year ended 31/12/02 GBP	Year ended 31/12/01 GBP
Payable to the Investment Manager			
Investment Management fee	3	(110,585)	(181,735)
Performance fee	3	-	-
		(110,585)	(181,735)
Payable to the Administrator			
Administration fee	3	(45,492)	(44,289)
Registration fee	3	(18,978)	(2,608)
		(64,470)	(46,897)
Payable to the Custodian			
Custody fee	3	(3,686)	(6,056)
Sub-custody fee	3	(4,062)	(6,806)
Transaction fee	3	(8,280)	(5,760)
		(16,028)	(18,622)
Other expenses			
Audit fee		(9,063)	(7,217)
Directors' remuneration		(21,000)	(14,371)
Other		(33,168)	(44,287)
		(63,231)	(65,875)
Total expenses		(254,314)	(313,129)

11. Debtors

	31/12/02 GBP	31/12/01 GBP
Accrued income	2,227	17,456
Sale of securities awaiting settlement	-	57,826
Other debtors	5,834	8,945
	8,061	84,227

12. Cash and bank balances

	31/12/02 GBP	31/12/01 GBP
Cash and bank balances	250,954	3,087,046

All cash and bank balances are held with Deutsche Bank A.G., London.

13. Creditors

	31/12/02 GBP	31/12/01 GBP
Accrued expenses	(21,549)	(38,248)

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 *continued*

14. Exchange rates

The following GBP exchange rates used in this report at 31 December 2002 were :

EUR	1.5342
HKS	12.5546
MYR	6.1176
NOK	11.1530
SG\$	2.7924
TWD	55.9763
US\$	1.6099

15. Purchases and sales of investments during the year

	Year ended 31/12/02 GBP	Year ended 31/12/01 GBP
Total purchases	<u>5,016,813</u>	<u>14,333,124</u>
Total sales	<u>5,789,491</u>	<u>11,930,695</u>

16. Related party transactions

Herald Investment Management Limited, who acts as Investment Manager of the Fund received GBP110,585 during the year for providing this service. At the year end GBP6,432 was due to Herald Investment Management Limited.

17. Soft commission arrangements

There were no soft commission arrangements during the year under review.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 *continued*

18. Financial instruments

The financial instruments of the Fund are set out in the Portfolio of Investments on page 14 to 16. The main risks and policies relating to financial instruments are set out on page 3. The Fund has no financial liabilities other than short-term creditors as described in note 13. A substantial portion of the investments of the Fund are denominated in currencies other than GBP and are included below:

31 December 2002

Currency	Investments GBP	Other Net Assets GBP	Total GBP
EUR	200,430	11	200,441
HK\$	186,633	-	186,633
MYR	362,887	-	362,887
NOK	53,797	-	53,797
SG\$	74,667	-	74,667
TWD	149,528	3,126	152,654
US\$	5,843,065	9,159	5,852,224
	6,871,007	12,296	6,883,303

31 December 2001

Currency	Investments GBP	Other Net Assets GBP	Total GBP
¥	294,215	-	294,215
EUR	512,201	1,501	513,702
HK\$	389,505	3	389,508
MYR	330,489	-	330,489
NOK	118,892	-	118,892
SG\$	74,235	-	74,235
TWD	243,502	143,473	386,975
US\$	12,587,697	321,577	12,909,274
	14,550,736	466,554	15,017,290

19. Adjustable rate index notes (ARINs)

The Fund may invest up to 10% of Net Asset Value in ARINs. An ARIN is a form of promissory note issued by a brokerage firm or other counterparty which provides that the amount of principal will vary inversely to changes in the value of a specified security or basket of securities. The effect of such an instrument is equivalent to a short sale of the specified security or basket of securities, except that the potential loss to the Fund is limited to the amount invested in the ARIN. At 31 December 2002 the Fund did not hold any ARINs as this product had been discontinued by the brokerage firm.

20. Subscriber Shares

As at 31 December 2002, the Fund has issued 7 subscriber shares. The holders of these shares are not entitled to dividends or any surplus of assets over liabilities upon the winding-up of the Fund. They are thus described in the financial statements by way of this note only.

21. Approval of the financial statements

The financial statements were approved for issuance by the Board of Directors on 26 February 2003.

HERALD INVESTMENT FUND PLC

Other Information

INVESTMENT MANAGER

Herald Investment Management Limited
12 Charterhouse Square
London EC1M 6AX
England
www.heralduk.com

ADMINISTRATOR AND REGISTRAR

State Street Fund Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

CUSTODIAN

State Street Custodial Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

AUDITORS

PricewaterhouseCoopers
Chartered Accountants & Registered Auditors
George's Quay
Dublin 2
Ireland

COMPANY SECRETARY

State Street Fund Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

LEGAL ADVISERS

In Ireland

Arthur Cox
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Earlsfort Terrace
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Ireland

In England

Macfarlanes
10 Norwich Street
London EC4A 1BD
England

SPONSORING BROKER

NCB Stockbrokers
3 George's Dock
International Financial Services Centre
Dublin 1
Ireland

DIRECTORS

Alan Jeffers, Chairman (Irish)
William Backhouse LVO (British)
David Boyle (British)
Justin Egan (Irish)

REGISTERED OFFICE

Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

HERALD INVESTMENT FUND plc

ANNUAL AUDITED REPORT

for year ended 31 December 2002