

HERALD INVESTMENT FUND plc
– The Herald Worldwide Fund

ANNUAL REPORT

for year ended 31 December 2005

HERALD INVESTMENT FUND PLC

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ANNUAL REPORT for year ended 31 December 2005

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HERALD INVESTMENT FUND PLC

GENERAL INFORMATION

The following information is derived from the Prospectus dated 13 November 2003.

Herald Investment Fund plc, from hereon in to be known as "the Company", 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. The Company is organised in the form of an umbrella fund under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 ("UCITS Regulations, 2003").

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 Financial Regulator (the "Authority"). The Company has obtained approval from the Authority 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 securities markets. In particular, the Fund may be exposed to risks of expropriation, nationalisation and confiscation of assets and changes in legislation relating to the permitted level of foreign ownership.

Currency risk

The functional 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.

PRICES

The price for buying and selling redeemable participating Shares in the Fund is represented by the Net Asset Value per redeemable participating 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 redeemable participating Shares and 1% in respect of repurchases made within two years of subscription.

HERALD INVESTMENT FUND PLC

GENERAL INFORMATION *continued*

DEALING

Subscriptions and repurchases of redeemable participating 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 redeemable participating 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 redeemable participating 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: + 353-1-8538557

DIVIDENDS

The Fund will declare 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 have been no significant events during the year to report.

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2005

The Directors present herewith their report together with the audited financial statements for the year ended 31 December 2005.

Results and Business Activities

The results of operations for the year are set out in the Profit and Loss Account on page 18. Regarding the business activities of the Fund during 2005 please refer to the Investment Manager's Report on pages 10 to 13.

Dividends

No dividend is proposed for the year ended 31 December 2005.

Directors

The Directors of the Company 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 of several 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 and of ING Real Estate Investment Management Group (UK) Limited. He is Chairman of Thames River Multi Hedge PCC Limited, the Investors' Committee of Lionbrook Property Partnership and the Advisory Committee of ING UK Residential Property Fund. Mr Backhouse is 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 Property Fund and a director of other investment companies and funds. Mr Boyle is a Non-Executive Director and a shareholder of Herald Investment Management Limited.

Adrian Waters (Irish)

Mr Waters is an independent funds consultant. He is a chartered accountant having qualified with the firm Oliver Freaney & Co. From 1989 to 1993 he was employed by the investment management services group of Price Waterhouse, New York. From 1993 to May 2001 he was CEO of BISYS Europe. He is currently a director of a number of other 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 :

	2005	2004
William Backhouse and connected persons	12,597.47	12,597.47 Shares
David Boyle and connected persons	12,182.21	12,182.21 Shares

None of the other Directors had interests in the Shares of the Company at 31 December 2005 or at any time during the financial year. None of the Directors has a service contract with the Company.

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2005 *continued*

Significant events since the year end

There have been no significant events affecting the Company since the year end.

Books of account

The measures taken by the Directors to secure compliance with the Company'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, International Financial Services Centre, Dublin 1, Ireland.

Independent Auditors

The independent 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 2004, the Company has obtained certification as a Distributing Fund as defined by the United Kingdom Income and Corporation Taxes Act 1988. It is intended that the Company will apply for distributor status in respect of the year ended 31 December 2005.

On behalf of the Board of Directors

Alan Jeffers

Adrian Waters

Date: 20 February 2006

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 Company and of the profit or loss of the Company 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 Company 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 Company 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 2005 and the UCITS Regulations, 2003. They are also responsible for safeguarding the assets of the Company and in fulfilment of this responsibility, they have entrusted the assets of the Company to the Custodian for safekeeping in accordance with the Memorandum and Articles of Association of the Company. 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

Alan Jeffers

Adrian Waters

Date: 20 February 2006

HERALD INVESTMENT FUND PLC

INDEPENDENT AUDITORS' REPORT to the Members of Herald Investment Fund plc (the "Company")

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise the Balance Sheet, the Profit and Loss Account, the Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders, the Portfolio of Investments and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members 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 in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003. We also report to you whether in our opinion: proper books of account have been kept by the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the Company's Balance Sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and where practicable, include such information in our report.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs at 31 December 2005 and of its results for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2005 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company's Balance Sheet is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin 2

20 February 2006

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 2005, in our capacity as Custodian to the Company.

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 Company by the Memorandum and Articles of Association and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003; 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, 2003.

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

Date: 20 February 2006

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2005

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

Capital performance for the 12 months to 31 December 2005

Herald Worldwide Fund NAV	+8.1%
US	
Russell 1000 Large Cap Technology	+13.7%
Russell 2000 Small Cap Technology	+8.7%
NASDAQ Composite	+13.0%
S&P 500	+14.8%
Russell 2000 Small Cap	+15.2%
UK	
FTSE techMARK 100	+19.7%
FTSE Information Technology	+14.7%
FTSE 100	+16.7%
FTSE Small Cap	+19.8%
Europe	
Neuer Markt	+14.9%
FTSE EUROTOP 300	+19.1%
DAX	+23.5%
CAC 40	+20.1%
Asia Pacific	
JASDAQ	+41.1%
Nikkei 225	+37.2%
Hang Seng	+16.8%

All returns £STG adjusted.

Source: Herald Investment Management Limited, Bloomberg.

Introduction

The equity markets overcame rising oil prices and interest rates in 2005 to deliver some of the best returns since 2000 with a notable year-end rally. Similarly, the assets/share rallied in the second half, up 15.5% and thus overturned the 6.4% deficit in the first half of 2005 leaving the Fund up 8.1% for the year. After a recovery over the summer months from the April lows, markets were again down sharply in October as oil prices spiked during the fall out from Hurricane Katrina but a strong rally to the end of the year more than made up for these losses. In October the Russell 1000 Tech index was down 2.5% while the Russell 2000 Tech index was down 3.7% in \$ before rallying 5.9% and 7.9% respectively in November. Over the same period the US portfolio was down 4.3% before recovering 5.9% in \$.

The trend of large cap outperformance has continued through to the end of the year with the Russell 1000 Tech index gaining 2.0% and the smaller companies Russell 2000 Tech index down 2.5% in \$. Apple continued to galvanise the Fund's performance but has been complimented by broad based support from the likes of THQ, Thomson Intermedia and LG Electronics. Gresham was by far the most expensive stock in the portfolio, falling 71% over the year. Given the relative concentration of the fund, this was particularly expensive.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2005 *continued*

Technology underperformed in 2005 with the 3% rise in the S&P 500 and a 3.3% rise in the Russell 2000 Index in \$ outpacing our relevant technology-biased indices while the Nasdaq index was also up only 1.4%. Within the US Bloomberg technology sub-sectors only semiconductors and electrical components were in positive territory while the media sector was hard hit, down 11.1% in \$, although the Internet sector was surprisingly also down, 4.6% in \$, as several large names reported disappointing earnings. In the UK the FTSE IT index return 14.7%, lagging the FTSE 100's 16.7% rise as the heavy weighting of metals and mining stocks in the FTSE 100 outperformed, while the FTSE Techmark's 100 return of 19.7% was more in-line with the FTSE Smallcap's 19.8%. Asian markets were the best performers globally with Japan coming back into vogue, the Nikkei 225 rising 40.2%, while Korea's Kospi index rose 54.0%.

US

The US underperformance evident in April was temporary and the US portfolio ended the year up 4.1% in \$ terms, which was ahead of all the relevant indices. There was a robust summer and a strong November bounce back from the October sell-off. This performance was driven by an outstanding year from Apple, which appreciated 123%, and THQ, up 61%, while RSA, Cognos and Macrovision were amongst the disappointments.

The P/E of the US portfolio is far from stretched at 31.3x for 2005 falling to 25.0x for 2006 based on the latest broker estimates. The earnings growth of the US portfolio is forecast to accelerate from 19.2% in 2005 to 25.4% in 2006 as a couple of stocks move into profit but even when this is stripped out earnings growth is still stable at a healthy 21.4% in 2006 after 21.6% in 2005. Given such robust earnings growth and reasonable valuations, we are optimistic about the US portfolio going forward.

UK

The UK in contrast has been more problematic with the portfolio down 5.3% against a backdrop of double-digit returns for the FTSE techMARK 100 and FTSE IT indices. The UK portfolio was down 7.2% in October only to recover 6.9% in November. The primary culprit for the annual decline was Gresham, which continued to fall in the second half, albeit less aggressively than in the first half, and ended the year down 71%. These shares soared in 2003 and partly contributed to the fund's significant outperformance that year, and although some were sold so the net book cost is minimal it still proved painful, albeit it has rallied usefully so far in 2006. Revenues thus far have been slower to realise than the market had hoped for. In contrast Thomson Intermedia has been a strong performer even if it ended the year slightly off its peaks. Imagination Technologies also rallied in the final quarter as the share price finally responded to a host of encouraging announcements regarding design-ins for its 3D graphics core technology.

The poor performance of the UK portfolio is in stark contrast to the generally good underlying trading. Recent earnings upgrades for Amstrad and Imagination Technologies has led to the earnings growth of the UK portfolio rising to 94.7% in 2005 and 66.4% in 2006 based on the most recent broker estimates while even if one strips out companies moving from loss to profit in these years the earnings growth is still a more than respectable 40.4% in 2005 and 21.9% in 2006. This resulted in the P/E of the portfolio coming down from 24.5x in 2005 to 14.7x in 2006. Consequently, after a tough 2005 we are increasingly confident about the outlook for the UK portfolio in 2006.

Far East and Europe

The Far East has performed well, in-line with the markets in Asia, rising 26.5%, driven by the purchase of LG Electronics in the last quarter, returning 39% by the year-end. The European portfolio is now a very small proportion of the fund after the sale of several holdings during the second half and had a negligible impact on the performance of the fund.

Market Background

The recent Consumer Electronics Show in Las Vegas highlighted a number of trends going into 2006, revolving around an increased interest in more advanced consumer electronics such as game consoles, mobile phones, LCD TVs and iPods as well as a step-change in the move towards the 'digital home' as the Internet continues to pervade our daily lives facilitated by every cheaper and user-friendly wireless equipment. The launch of the Xbox360 created a lot of hype over Christmas and will be followed by the Sony Playstation 3 in 2006, both with online capability. The recent announcement that the number one online game in China, Fantasy Westward Journey, broke through the one million peak concurrent users is testament to how far the West has to go to embrace online gaming.

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2005 *continued*

Ever cheaper hard disc storage and wireless connectivity will bring the concept of the digital home closer to reality as demonstrated by Intel's new Viiv platform, which facilitates the wireless multimedia experience, and Samsung's forecast for 200% NAND flash bit growth in 2006 driven by MP3, flash cards, 3G, portable multimedia players and GPS. Seagate in its Q4 2005 earnings call noted the 'enormous proliferation' of digital media that drove 60% growth in HDD storage sales in 2005 and has guided for further strength in 2006. CLSA estimated the cost of storing one MP3 song or 4Mb in 1995 was US\$3.60 falling to \$0.002 in 2005 while a feature-length movie has gone from \$720 to \$0.47. The average 40Gb hard drive of a PC can now store over 5,000 songs or 50 movies. The unlocking of this storage capability was broadband, which takes the download time of an average MP3 song from 10minutes with dial-up to 33 seconds with ADSL falling to 3 seconds with ADSL2 while feature length movies are now yours in 2 hours or 9minutes versus 34 hours. With broadband penetration now over 50% in the UK and the US and well ahead of that in Japan and South Korea, our access to media content has been revolutionised.

To this end Apple sold 14m iPods in the December quarter alone, well ahead of expectations again, and up from 4.6m the year before driven by the success of the new iPod Nano and video iPod models taking the total installed base to over 42 million. iTunes has sold 850 million songs in 2005, decimating the offline record label industry. Of more interest was the revelation that iTunes has also sold 8 million TV show downloads since the launch of the service in October 2005. This convergence of media content, wireless and online is fast taking shape with Google recently announcing the launch of its first paid-for video download service. Yahoo! has launched Yahoo!Go mobile and Yahoo!GoTV, which will be embedded on Nokia phones and will be available on Cingular and AT&T. Sky has announced an online movie download service made possible by its acquisition of Easynet. However, online advertising's share of media budgets continues to lag its share of consumer media consumption at only 5% in the US although up from 3% two years ago and major advertisers such as GM and Ford are moving towards 20% allocations to online advertising so an major opportunity exists in this space.

Nokia is forecasting more than 3 billion mobile phone subscribers by 2008 and 10% growth in global handset shipments in 2006 to over 900m driven by emerging market demand and high-end replacement cycles in the developed world. Crucially, Nokia views 2006 as the year of 3G, estimating 3G handset shipments will double. MP3 playing mobile phones are already very popular and look set to replace camera phones as the next must-have functionality on the back of the 2005 launch of the Motorola ROKR that integrated Apple iTunes and Sony Ericssons W800i Walkman phone. Other notable consumer gadgets include the Sony's e-Book, which brings the prospect of paperless book-reading ever closer and compliments attempts by Google and Yahoo to bring literary content online. Samsung also expects the number of LCD televisions to be shipped in 2006 will jump to over 40m from 25m units in 2005. LCD television penetration hit 19% in Q4 05, up from only 6% in Q4 04, according to DisplaySearch.

The emergence of Samsung as a global tech behemoth and South Korea's gradual usurpation of Japan as the technological leader of the Far East continued in 2005 as Samsung's market capitalization broke the US\$100bn mark for the first time, making it the largest technology company in the Far East as well as outside of the US. Samsung dominates two of the hottest sectors in technology going into 2006 in LCD and NAND flash memory. The company's ambitious plan, announced in November 2005, to become the third largest electronics company in the world by spending US\$45bn on R&D to 2010 sets the tone for the industry. While the Far East's domination in consumer electronics continues to grow, the US remains the master of the PC industry and with US corporate capex growth forecast to remain double-digit and the launch of Microsoft's new operating system, Vista, at the back end of 2006, one should see strong corporate demand, which provides a solid foundation for the technology sector in 2006.

Outlook

The US managed to overcome rising interest rates, the fall out of Hurricane Katrina and rising oil prices with the economy on course to deliver GDP growth of nearly 4% in 2005. US interest rates hit 4.25% in December 2005, the thirteenth consecutive rate rise in a year and half of tightening from June 2004 but now look to have peaked. Oil prices have subsided from their post-Hurricane Katrina peaks and while higher oil prices seem here to stay the outgoing Federal Reserve Chairman, Alan Greenspan, commented in October 2005 that, "the effect of the current surge in oil prices, though noticeable, is likely to prove significantly less consequential to economic growth and inflation than the surge in the 1970s".

HERALD INVESTMENT FUND PLC

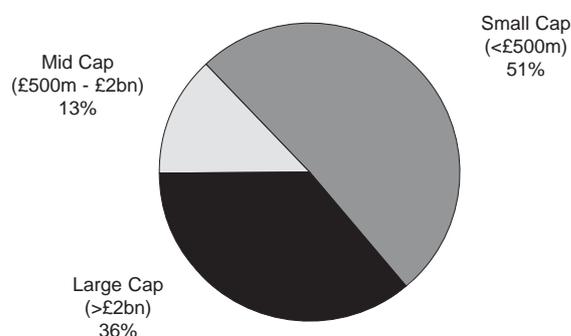
INVESTMENT MANAGER'S REPORT for the year ended 31 December 2005 *continued*

The outlook for the US economy is for continued solid growth in 2006, albeit at slightly lower levels than 2005. Falling unemployment and rising oil prices are driving inflation and interest rate tightening, although the minutes from the December 2005 Federal Reserve committee indicated the inflation outlook was more benign given oil prices subsiding, a tough price environment and subdued wage inflation. With the prospect of an end to the US interest rate tightening cycle, the outlook for US equities continues to be optimistic. This view is supported by robust and often outstanding results coming out of the US in our sector and solid balance sheets. Nevertheless the tough pricing environment mentioned by the Fed has and will continue to impact the technology sector while the prospect of a hard landing for the US economy remains given the ever burgeoning trade deficit, a potential interest rate overshoot by the Fed, and fears of a housing market crash as well as continued insurgency in Iraq and the associated terrorist threats. The fate of the US economy will as ever have a sizeable bearing on the global economic outlook but one can identify other key drivers such as the Far East, with a reascent Japan and continued strength from China, and a resumption of growth in the EU. China looks set to overtake the UK as the fourth largest economy in 2006 and the Bank of China recently revealed it would hit US\$1trillion in foreign currency reserves by the end of 2006 if it keeps continuing to amass reserves at the pace of an eye-watering US\$15bn per month. Given the economic outlook, undemanding valuations in our sector and the prospect of strong earnings growth, we look forward to 2006 with confidence.

Portfolio Weightings

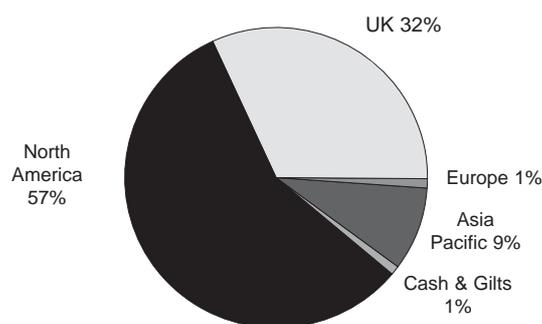
BREAKDOWN BY MARKET CAP 31 DECEMBER 2005

	31/12/04	31/12/05
Large Cap	33%	36%
Mid Cap	13%	13%
Small Cap	54%	51%



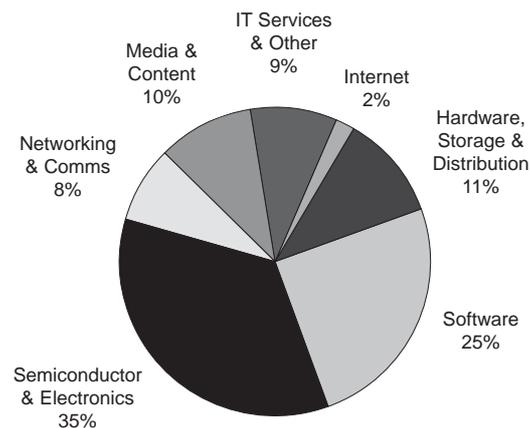
GEOGRAPHIC BREAKDOWN 31 DECEMBER 2005

	31/12/04	31/12/05
North America	53%	57%
UK	38%	32%
Europe	2%	1%
Asia Pacific	4%	9%
Cash & Gilts	3%	1%



SECTOR SPLIT 31 DECEMBER 2005

	31/12/04	31/12/05
Semiconductor & Electronics	24%	35%
Networking & Communications	7%	8%
Media & Content	15%	10%
IT Services & Other	7%	9%
Internet Infrastructure & Services	8%	2%
Hardware, Storage & Distribution	11%	11%
Software	27%	25%



Source: Herald Investment Management Limited.

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2005

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
AUSTRIA - nil (2004 - 0.18%)				
CANADA - 4.18% (2004 - nil)				
<i>SOFTWARE</i>				
20,000	Cognos Inc	(a)	404,136	4.18
IRELAND - nil (2004 - 1.26%)				
KOREA - 3.72% (2004 - nil)				
<i>HOUSEHOLD DURABLES</i>				
7,000	LG Electronics Inc		360,210	3.72
MALAYSIA - 4.27% (2004 - 3.06%)				
<i>MEDIA</i>				
370,000	Star Publications		413,427	4.27
NORWAY - nil (2004 - 0.89%)				
TAIWAN - 0.80% (2004 - 0.63%)				
<i>SEMICONDUCTOR EQUIPMENT & PRODUCTS</i>				
42,481	United Microelectronics Corp		77,204	0.80
UNITED KINGDOM - 32.68% (2004 - 37.76%)				
<i>COMMERCIAL SERVICES & SUPPLIES</i>				
300,000	Thomson Intermedia Plc		552,000	5.71
<i>COMMUNICATIONS EQUIPMENT</i>				
400,000	Amstrad Plc		608,000	6.28
<i>COMPUTERS & PERIPHERALS</i>				
630,000	Imagination Technologies Group		469,350	4.85
100,000	Plasmon		118,000	1.22
<i>DIVERSIFIED FINANCIALS</i>				
145,000	Herald Investment Trust plc		548,463	5.67
<i>INTERNET SOFTWARE & SERVICES</i>				
54,000	Iona Technologies Plc		91,848	0.95
<i>IT CONSULTING & SERVICES</i>				
630,000	Alphameric		554,400	5.73
<i>SOFTWARE</i>				
375,000	Focus Solutions Group Plc		75,000	0.78
180,000	Gresham Computing		144,000	1.49
UNITED STATES - 53.05% (2004 - 52.96%)				
<i>COMMUNICATIONS EQUIPMENT</i>				
43,000	Foundry Networks Inc	(a)	345,653	3.57
30,000	Mcdata Corporation	(a)	65,356	0.68
90,000	MRV Communications Inc	(a)	106,422	1.10
11,000	Qualcomm Inc	(a)	275,521	2.85
<i>COMPUTERS & PERIPHERALS</i>				
60,000	Advanced Digital Information	(a)	340,061	3.51
18,000	Apple Computer	(a)	751,560	7.76
22,000	EMC Corp		174,411	1.80
90,000	Simpletech Inc	(a)	196,592	2.03

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2005 *continued*

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
UNITED STATES - 53.05% (2004 - 52.96%) <i>continued</i>				
<i>ELECTRONIC EQUIPMENT & INSTRUMENTS</i>				
8,500	Arrow Electronics Inc		158,488	1.64
10,000	Jabil Circuit Inc		215,815	2.23
<i>IT CONSULTING & SERVICES</i>				
8,000	Manhattan Associations Inc	(a)	95,390	0.99
<i>MEDIA</i>				
20,000	Macrovision Corp	(a)	194,787	2.01
<i>SEMICONDUCTOR EQUIPMENT & PRODUCTS</i>				
18,800	Analog Devices Inc		392,591	4.06
50,000	MIPS Technologies Inc	(a)	165,429	1.71
10,000	Texas Instruments Inc		186,806	1.93
12,000	Xilinx Inc	(a)	175,867	1.82
<i>SOFTWARE</i>				
20,000	Citrix Systems Inc	(a)	334,702	3.46
21,000	Microsoft Corp	(a)	319,388	3.30
25,000	RSA Security Inc	(a)	162,662	1.68
15,000	Serena Software Inc	(a)	204,718	2.12
19,500	THQ Inc	(a)	270,904	2.80
TOTAL INVESTMENTS			9,549,161	98.70
Current assets			403,835	4.17
Total assets			9,952,996	102.87
Current liabilities			(277,423)	(2.87)
NET ASSET VALUE PER FAIR VALUE PRICES AS AT 31/12/2005			9,675,573	100.00

	31 DECEMBER 2005	31 DECEMBER 2004	31 DECEMBER 2003
Net Asset Value per dealing prices	GBP9,730,734	GBP11,259,825	GBP14,754,559
Fair value adjustment	GBP55,161	—	—
Net Asset Value per fair value prices	GBP9,675,573	GBP11,259,825	GBP14,754,559
Number of redeemable participating shares in Issue	873,112	1,092,418	1,559,098
Net Asset Value per redeemable participating Share, based on dealing prices	GBP11.08	GBP10.31	GBP9.46

Classification

(a) Transferable securities dealt on another regulated market.
All other securities are transferable securities admitted to an official stock exchange listing.

Analysis of Total Assets

Transferable securities as described in classification (a) above	44.30
Transferable securities admitted to an official stock exchange listing	51.64
Current assets	4.06
	100.00

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2005 (Unaudited)

MAJOR PURCHASES	GBP VALUE
Plant AG	493,232
LG Electronics Inc	247,178
MIPS Technologies Inc	232,599
Texas Instruments Inc	153,207

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2005 (Unaudited) *continued*

MAJOR SALES	GBP VALUE
Verisign Inc	611,305
Apple Computer	502,284
Plant AG	493,232
Aegis Group	470,619
Thomson Intermedia	406,149
THQ Inc	264,653
Sandisk Corp	200,124
Nera ASA	102,007
Patsystems Plc	77,514
Asyst Technologies Inc	73,594
Misys	63,887
Plant AG	16,855

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

HERALD INVESTMENT FUND PLC

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

	Note	GBP	Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Gross income	9	78,460	126,538	
Net gains on investments at fair value	7	811,707	1,145,102	
Other losses	8	(15,345)	(15,118)	
		874,822	1,256,522	
Expenses	10	(185,719)	(233,472)	
Net income for the year			689,103	1,023,050
Less: withholding tax			(11,632)	(24,257)
Net increase in net assets attributable to redeemable participating Shareholders			677,471	998,793

On behalf of the Board of Directors

**Alan Jeffers
Adrian Waters**

Date: 20 February 2006

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO REDEEMABLE PARTICIPATING SHAREHOLDERS for the year ended 31 December 2005

	GBP	Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Net assets attributable to redeemable participating Shareholders at the start of the year		11,259,825	14,754,559
Movement due to sales and repurchase of Shares			
Amounts received on sale of Shares	—	63,578	63,578
less: Amounts paid on repurchase of Shares	(2,586,843)	(5,167,756)	(5,167,756)
Equalisation	325,120	610,651	610,651
		(2,261,723)	(4,493,527)
Net increase in net assets attributable to redeemable participating Shareholders		677,471	998,793
Net assets attributable to redeemable participating Shareholders at the end of the year		9,675,573	11,259,825

On behalf of the Board of Directors

**Alan Jeffers
Adrian Waters**

Date: 20 February 2006

HERALD INVESTMENT FUND PLC

BALANCE SHEET as at 31 December 2005

	Note	31/12/05 GBP	31/12/04 GBP
CURRENT ASSETS			
Financial assets held for trading:			
Investments at fair value	1 (a), 1(b)	9,549,161	10,893,461
Cash and bank balances	12	403,437	419,503
Debtors	11	398	1,005
TOTAL CURRENT ASSETS		9,952,996	11,313,969
CURRENT LIABILITIES			
Creditors	13	(277,423)	(54,144)
TOTAL CURRENT LIABILITIES		(277,423)	(54,144)
Net Assets attributable to redeemable participating Shareholders		9,675,573	11,259,825
TOTAL LIABILITIES		9,952,996	11,313,969

On behalf of the Board of Directors

Alan Jeffers
Adrian Waters

Date: 20 February 2006

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

1. Basis of presentation

The format and certain workings of the financial statements have been adapted from those contained in the Companies (Amendment) Act 1986 and FRS 3 "Reporting Financial Performance" so that, in the opinion of the Directors, they more appropriately reflect the nature of the Company's investment business.

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 Profit and Loss Account and the Statement of Changes in Net Assets Attributable to Redeemable Participating Shares on page 18. In arriving at the results for the year, all amounts in the Profit and Loss Account on page 18 relate to continuing activities.

2. Significant accounting policies

a) Basis of accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities held at fair value through the profit and loss and in accordance with generally accepted accounting standards in Ireland, the UCITS Regulations 2003 and, the Companies Acts 1963 to 2005 (see note 2). The financial statements are prepared in GBP (Sterling).

b) Changes in accounting policies

The Fund adopted the following new accounting standards which apply to listed entities for accounting periods beginning on or after 1 January 2005:

Accounting Standard	Issue Date
FRS 21 Events after the balance sheet date	May 2004
FRS 23 The effects of changes in foreign exchange rates	December 2004
FRS 25 Financial instruments: Disclosure and presentation	December 2004
FRS 26 Financial instruments: Measurement	December 2004
FRS 28 Corresponding amounts	October 2005

The adoption of these standards has resulted in some changes to the Fund's accounting policies. In summary:

- FRS 21 had no material impact on the Fund's financial statements and policies;
- FRS 23 had no material impact on the Fund's financial statements and policies. The functional currency of the Fund has been re-evaluated based on the guidance in the revised standard and is still considered appropriate;
- FRS 25 has affected the presentation of redeemable participating units, now classified as a financial liability;
- FRS 26 has required the classification of financial assets and financial liabilities for recognition and measurement purposes. The Fund has classified financial instruments as financial assets or financial liabilities held at fair value through the profit and loss on adoption of FRS 26.
- FRS 28 requires prior year comparatives to be disclosed in the primary statements of each Sub-Fund.

All changes to accounting policies have been made in accordance with the transitional provisions in the respective standards. The Fund has availed of the provisions under FRS 25 and FRS 26 not to restate prior year comparatives. Prior year comparatives are stated at the close of business price, in accordance with prior year accounting policies.

All references to net assets throughout this document refer to net assets attributable to holders of redeemable participating Shares unless otherwise stated.

c) 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 Company. Bank deposit interest 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 the most part of UK source dividend income) is shown net of the notional tax credit.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

d) 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 at fair value. The foreign exchange gain or loss arising on the translation of other assets is included in other gains or losses.

e) 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 at fair value in the Profit and Loss account.

f) Investments at fair value

All investments in the Fund's Portfolio of Investments are classified as held for trading. Investments held for trading are acquired principally for the purpose of selling in the short term and include equity instruments. All other financial assets or liabilities are not classified held for trading.

Regular-way purchases and sales of investments are recognised on trade date – the date on which the Fund commits to purchase or sell the asset.

Equities – Equity investments listed on a recognised stock exchange or traded on any other organised active market are valued at fair value. The close of business price on the principal exchange or market for such instrument, being a quoted bid price, is taken as the best evidence of fair value. For investments acquired or traded at a premium or discount outside or off the relevant exchange, or on an over the counter market, these may be valued taking into account such a premium or discount as at the date of valuation of the investment. If for specific investments the close of business bid prices do not, in the opinion of the Manager, reflect their fair value or are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If the market for an investment is not active, an entity establishes fair value by using a valuation technique as determined by the Manager, approved for such purpose by the Trustee, in consultation with the Investment Manager with a view to establishing the probable realisation value for such investments as at the close of business. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another investment that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the investment and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Fund uses that technique. Estimation methods and valuation models may be used to calculate fair value.

g) Distribution policy

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

h) Foreign exchange

Foreign currency translation

The functional currency of the Fund is Sterling reflecting the Fund's primary economic environment. The financial statements are presented in Sterling, the presentation currency which is also the functional currency of the Fund.

Foreign currency assets and liabilities, including investments, are translated into Sterling at the exchange rate prevailing at the period-end. The foreign exchange gain or loss based on the translation of the original cost of the investments is included in the net gains or losses on investments at fair value. The foreign exchange gain or loss arising on the translation of other assets is included in foreign exchange gains or losses.

Realised gains and losses arising between the transaction and settlement dates on purchases or sales of non-US dollar investments are included in foreign exchange gains or losses in the Profit and Loss Account.

i) Redeemable units

All redeemable units issued by the Fund provide the investors with the right to require redemption for cash at the value proportionate to the investor's share in the Fund's net assets at the redemption date. In accordance with FRS 25 such instruments give rise to a financial liability for the value of the redemption amount. In accordance with the prospectus the Fund is contractually obliged to redeem units at bid-market prices. In accordance with FRS 25 the measure of fair value of a financial asset is the current bid-market price, the redeemable units need to be adjusted to bid-market prices to balance the balance sheet. Financial liabilities arising from the redeemable units issued by the Fund are carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

j) Significant accounting policies for the year ended 31 December 2004

Listed below are the significant accounting policies adopted by the Fund during the prior year and are those stated in the prior year's annual accounts. The format of the current year primary statements, namely the Profit and Loss Account, Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders and Balance Sheet, is in compliance with the new presentation requirements of FRS 25. As stated in the Changes to Accounting Policies above, the Fund has not restated prior year comparatives. The prior year primary statements are reflective of what was reported last year with the exception of a few items of reclassification which allow for comparison with the current year primary statements, as follows;

- now included in net operating income in the Profit and Loss Account are net gains on investments at fair value during the period and other (losses)/gains.

If the prior year comparatives had been restated using the current year accounting policies the following adjustments would have been required;

- the use of bid prices in the previous accounting period would have resulted in different valuations adopted for the marketable investment securities held, which would have changed the net gains on financial assets at fair value through profit and loss in the Profit and Loss Account.

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) in the Profit and Loss Account.

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. The opening NAV is GBP10.31 per Share. This fee is calculated and accrued at each valuation point. No performance fee was earned during the year.

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.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

3. Significant agreements *continued*

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 subcustodial 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.

5. Equalisation

Income equalisation arrangements are applied in the case of redeemable participating Shares in the Fund. These arrangements are intended to ensure that the income per redeemable participating Share which is distributed in respect of the distribution period is not affected by changes in the number of redeemable participating 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 redeemable participating Shares.

	Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Income deducted on sale of redeemable participating Shares	—	(8,578)
Income received on repurchase of redeemable participating Shares	325,120	619,229
	<u>325,120</u>	<u>610,651</u>

6. Net Asset Value per redeemable participating Share

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

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

7. Net gains on investments at fair value during the year

The net gains on investments at fair value during the year comprise:

	Note	Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Proceeds from sales of investments during the year		3,282,223	6,134,598
Original cost of investments sold during the year		(3,669,768)	(5,065,791)
(Losses)/gains realised on investments at fair value	2(d)	(387,545)	1,068,807
Net movement in unrealised gain in investments at fair value		1,199,252	76,295
Net gains on investments at fair value		811,707	1,145,102

8. Other losses

Other losses comprise:

		Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Foreign exchange losses on capital assets	2(h)	(15,345)	(15,118)
		(15,345)	(15,118)

9. Gross income

		Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Income from investments at fair value	2(c)	74,028	121,896
Bank interest	2(c)	4,432	3,110
Other income		—	1,532
		78,460	126,538

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

10. Expenses

	Note	Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Payable to the Investment Manager			
Investment Management fee	3	(78,227)	(91,920)
Payable to the Administrator			
Administration fee	3	(50,658)	(49,279)
Registration fee	3	(3,740)	(3,771)
		(54,398)	(53,050)
Payable to the Custodian			
Custody fee	3	(2,151)	(3,024)
Sub-custody fee	3	(1,375)	(2,510)
Transaction fee	3	—	(5,516)
		(3,526)	(11,050)
Other expenses			
Audit fee		(13,955)	(9,476)
Directors' remuneration		(25,245)	(28,430)
Other		(10,368)	(39,546)
		(49,568)	(77,452)
Total expenses		(185,719)	(233,472)

11. Debtors

	31/12/05 GBP	31/12/04 GBP
Accrued income	398	1,005
	398	1,005

12. Cash and bank balances

	31/12/05 GBP	31/12/04 GBP
Cash and bank balances	403,437	419,503
	403,437	419,503

All cash and bank balances are held with State Street Bank and Trust Company, London.

13. Creditors

	31/12/05 GBP	31/12/04 GBP
Amounts payable on repurchase of Shares	(223,394)	(5,815)
Accrued expenses	(54,029)	(48,329)
	(277,423)	(54,144)

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

14. Exchange rates

The following GBP exchange rates used in this report were :

	Year ended 31/12/05	Year ended 31/12/04
EUR	1.4554	1.4125
KRW	1,735.3767	1,987.4822
MYR	6.4885	7.2956
NOK	11.6245	11.6282
TWD	56.3832	60.8417
US\$	1.7167	1.9199

15. Purchases and sales of investments during the year

	Year ended 31/12/05 GBP	Year ended 31/12/04 GBP
Total purchases	1,126,216	2,043,864
Total sales	3,282,223	6,134,598

16. Related party transactions

Herald Investment Management Limited, who acts as Investment Manager of the Fund earned GBP78,227 (2004:GBP91,920) during the year for providing this service. At the year end GBP6,114 (2004:GBP7,091) was due to Herald Investment Management Limited.

17. Soft commission arrangements

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

18. Financial instruments

The financial instruments of the Fund are set out in the Portfolio of Investments on page 14 to 15. The main risks and policies relating to financial instruments are set out on page 3.

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, nationalisation and confiscation of assets and changes in legislation relating to the permitted level of foreign ownership.

Currency risk

The functional 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.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 *continued*

18. Financial instruments *continued*

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.

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 in GBP and are included below:

31 December 2005

Currency	Investments GBP	Other Net Assets GBP	Total GBP
KRW	360,210	—	360,210
MYR	413,427	—	413,427
TWD	—	7,555	7,555
US\$	5,706,312	1,727	5,708,039
	<u>6,479,949</u>	<u>9,282</u>	<u>6,489,231</u>

31 December 2004

Currency	Investments GBP	Other Net Assets GBP	Total GBP
EUR	161,862	—	161,862
MYR	344,864	—	344,864
NOK	99,758	—	99,758
TWD	70,819	6,995	77,814
US\$	5,964,235	752	5,964,987
	<u>6,641,538</u>	<u>7,747</u>	<u>6,649,285</u>

19. Subscriber Shares

As at 31 December 2005, the Company 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 Company. They are thus described in the financial statements by way of this note only.

20. Approval of the financial statements

The financial statements were approved for issuance by the Board of Directors on 20 February 2006.

HERALD INVESTMENT FUND PLC

Other Information

DIRECTORS

Alan Jeffers, Chairman (Irish)
William Backhouse LVO (British)
David Boyle DL (British)
Adrian Waters (Irish)

INVESTMENT MANAGER

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CUSTODIAN

State Street Custodial Services (Ireland) Limited
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International Financial Services Centre
Dublin 1
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INDEPENDENT AUDITORS

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Chartered Accountants & Registered Auditors
George's Quay
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Ireland

COMPANY SECRETARY

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