

HERALD INVESTMENT FUND PLC
– The Herald Worldwide Fund

ANNUAL REPORT

for the year ended 31 December 2006

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HERALD INVESTMENT FUND PLC

GENERAL INFORMATION

The following is derived from the Prospectus dated 3rd July 2006.

Herald Investment Fund Plc, from hereon in to be known as "The Company", is an open-ended investment company with variable capital organised under the laws of Ireland as a public limited company pursuant to the Companies Act, 1963 to 2006 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended) (the "Regulations"). It was incorporated on the 12 February 1998 and is listed on the Irish Stock Exchange.

The Company is organised in the form of an umbrella fund with segregated liability. The Articles of Association provide that the Company may offer separate classes of Shares, each representing interests in a fund comprising a distinct portfolio of investments. The Company has obtained the approval of the Financial Regulator 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 compromise:

- 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
- Contracts for Differences. These are held in accordance with the Fund's investment objectives and policies.

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.

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 forgoing 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.

HERALD INVESTMENT FUND PLC

GENERAL INFORMATION *continued*

DEALING *continued*

Applications should be made to the Administrator :

Bank of Ireland Securities Services Limited,
New Century House,
Mayor Street Lower,
International Financial Services Centre,
Dublin 1,
Ireland.
Tel +353 (0)1 670 0300
Fax +353 (0)1 829 0144
www.boiss.com

DIVIDENDS

The Fund may 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

It was resolved at the board meeting dated 30 May 2006, that the Company would enter into a new administration agreement with Bank of Ireland Securities Services Limited and the custodian agreement be entered into with The Governor and Company of the Bank of Ireland.

It was resolved that with effect from this change in service provider, DHKN Corporate Services Limited be appointed as Company Secretary to the Company.

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2006

The Directors present herewith their report together with the audited Financial Statements for the year ended 31 December 2006.

Results and Business Activities

The results of operations for the year are set out in the Income Statement on page 21. Regarding the business activities of the Fund during 2006 please refer to the Investment Manager's Report on pages 11 to 15.

Dividends

No distribution is proposed for the year ended 31 December 2006.

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 ING Real Estate Investment Management Group (UK) Limited. He is Chairman of Thames River Multi Hedge PCC Limited, the Investors' Committee of ING Lionbrook Property Partnership and the Advisory Committee of ING UK Residential Property Fund. Mr Backhouse is a shareholder of HIML Holdings Limited the parent Company 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 of Herald Investment Management Limited and its parent Company HIML Holdings Limited. He is also a shareholder in HIML Holdings 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 PriceWaterhouse, 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' Interests in Shares and Contracts

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

	2006	2005
William Backhouse and connected persons	12,597.47	12,597.47 shares
David Boyle and connected persons	12,182.21	12,182.21 shares

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2006 *continued*

None of the other Directors had interests in the Shares of the Company at 31 December 2006 or at any time during the financial year. None of the Directors has a service contract with the Company.

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 the following address:

Bank of Ireland Securities Services Limited,
New Century House,
Mayor Street Lower,
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 2005, 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 2006.

Risk Management Objectives and Policies

The various types of risks to which the Company is exposed are disclosed in Note 18 "Financial instruments and risks", on pages 30 and 31 of the notes to the Financial Statements.

On behalf of the Board of Directors

Alan Jeffers

Adrian Waters

Date: 28 February 2007

HERALD INVESTMENT FUND PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES for the year ended 31 December 2006

Statement of Directors' Responsibilities

The Directors are required to prepare Financial Statements for each financial period 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 year. In preparing the 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; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

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 2006 and the UCITS Regulations, 2003 (as amended). 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information of the Company included on the website of Herald Investment Fund plc (www.heralduk.com). Legislation in the Republic of Ireland governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

On behalf of the Board

Alan Jeffers

Adrian Waters

Date: 28 February 2007

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 2006 which comprise the Balance Sheet, the Income Statement, the Statement of Changes in Net Assets attributable to Redeemable Participating Shareholders, the Schedule 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 Irish Law and the accounting standards issued by the Accounting Standards Board and published 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 Acts, 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 2006 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (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 Financial Statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the Company 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, 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 2006 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 2006 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended).

HERALD INVESTMENT FUND PLC

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

Opinion *continued*

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 Financial Statements are 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

Date: 28 February 2007

HERALD INVESTMENT FUND PLC

STATEMENT OF CUSTODIAN'S RESPONSIBILITIES for the year ended 31 December 2006

The Custodian is responsible for the safe-keeping of the assets of the Company and must take reasonable care to ensure and report that the Company complies with the provisions of the Prospectus and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended). In particular, the Custodian must:

- a) take into its custody or under its control, all the assets of the Company and hold them in trust for the shareholders in accordance with the UCITS Regulations and, hence the Custodian is responsible for taking all reasonable steps for the prevention and detection of fraud and irregularities; and
- b) satisfy itself that the valuation of shares of the Company and that the sale, issue, repurchase, redemption and cancellation of shares of the Company are being carried out in accordance with the UCITS Regulations.

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

For the period from 1 January 2006 to 30 June 2006

We have enquired into the conduct of Herald Investment Fund plc for the period ended 30 June 2006, in our capacity as Custodian to the Company.

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

- a) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Memorandum and Articles of Association, and by the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003; and
- b) otherwise in accordance with the provision 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

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

For the period from 1 July 2006 to 31 December 2006

The Governor and Company of the Bank of Ireland, as Custodian to the Company, has enquired into the conduct of the Company for the period 1 July 2006 to 31 December 2006.

In our opinion the Company has, in all material respects, been managed:

- a) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Memorandum and Articles of Association, and by the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended); and
- b) otherwise in accordance with the provision of the Memorandum and Articles of Association and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended).

The Governor and Company of the Bank of Ireland
New Century House
Mayor Street Lower
International Financial Services Centre
Dublin 1
Ireland
Date: 28 February 2007

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2006

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 GBP12.4m.

Capital performance for the 12 months to 31/12/06

Herald Worldwide Fund NAV	+4.7%
US	
Russell 1000 Large Cap Technology	-3.8%
Russell 2000 Small Cap Technology	-0.6%
NASDAQ Composite	-3.9%
S&P 500	-0.3%
Russell 2000 Small Cap	+2.6%
UK	
FTSE techMARK 100	+5.6%
FTSE Information Technology	+0.3%
FTSE 100	+10.7%
FTSE Small Cap	+18.2%
Europe	
Neuer Markt	+19.9%
FTSE EUROTOP 300	+14.0%
DAX	+19.5%
CAC 40	+15.2%
Asia Pacific	
JASDAQ	-42.4%
Nikkei 225	-7.0%
Hang Seng	+17.7%

All returns £STG adjusted.

Source: Herald Investment Management Limited, Bloomberg.

Introduction:

After a disappointing first half wherein the fund assets declined by 6.7%, broadly reflecting the second quarter slowdown in stock markets around the world, an impressive second half rally saw the assets finish up 4.7% for the year, with the geographic portfolios comfortably outperforming all relative technology indices in the US and the UK. 2006 has been overall another year of solid economic growth with strong corporate earnings (US pretax profits up c.26%) and record cash financed M&A activity. The markets have also exhibited resilience to inflationary energy prices and Chinese wages as well as fears of a global economic downturn. The only negative macroeconomic factor to the Fund's performance in the year has been currency movements. Primarily, the severe depreciation of the dollar, which was only partially offset by its stimulating effect on US exports/corporate performance, and to a lesser extent, the appreciation of the Korean Won which severely damaged the competitiveness of Korean technology companies.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2006 *continued*

US:

For the first time since April 2003, exposure to the US climbed above 60%, finishing the year at 61%. The US portfolio returned 21.33% in local currency which, due to the extent of the dollar's depreciation, translated to 8.1% in sterling terms; during the same period, in sterling again, the Russell 1000 and Russell 2000 Technology Indices dropped 3.7% and 0.5% respectively and the NASDAQ declined by 3.8%. The most significant contributors to our outperformance of the relative US benchmarks have been Simpletech, which had a spectacular year (price up 235%) on the back of industrial OEM flash controller wins and better margins, as well as the strong returns from MRV (+73%), Macrovision (+69%) and Apple (+13.5%). On the "sinners" side, the return was held back by Texas Instruments, Analog Devices and Qualcomm, which all marginally underperformed as a result of the second half slowdown/inventory build-up in the handset electronics market that has affected mobile baseband chip makers as well as the whole analogue semiconductor industry.

Takeovers have also been a contributor to the performance, against the backdrop of the most M&A-active year in the US since 2000's dotcom frenzy. This underlines our view of the low valuations and to some extent, also, reflects the crippling Sarbanes-Oxley related listing costs in the US. Since initiating our analysis of the portfolio's P/E in December 2005, '06 multiples had declined in the six months to June '06 from 31.3x to 20.4x while '07 multiples dropped from 25.0x to 16.8x. It did not come as too much of a surprise then, that four of our holdings in the region have been bought out in the year with the acquisition of RSA by EMC Corp at c.50% premium standing out. The other takeovers involved Advanced Digital Information (acquired by Quantum Corp), Silver Lake Partners' LBO of Serena Software and the takeover of Digitas by Publicis Groupe. The portfolio P/Es seem to have bottomed out in June, however. After a second half rally in the markets, they have now increased slightly to 21.9x (2006) and 18.9x (2007) while portfolio earnings estimates, in sterling terms, have remained relatively constant to slightly up, with expected growths of 22% and 18.5% for '06 and '07 respectively.

UK:

At year end, the UK portfolio accounted for 23% of assets which was close to the period average but represents a contraction from previous years' weightings (2005:32% & 2004:38%). With 3 of the fund's top 5 performers in the year being from the UK and 7 out of the 9 UK holdings having produced positive returns, it is no surprise that the region returned 11.4% thus beating both the FTSE TechMARK (+5.63%) and the FTSE IT index (+0.35%). The star performers in 2006 include first half's culprit, Imagination Technologies (+45%) as well as Gresham Computing (+82%) and Thomson Intermedia (+27%). Imagination has been successful in licensing its graphics cores to 7 of the 10 top chip makers in the world and is now receiving royalties from 40 handsets. The share price has also been boosted by the announcement of an investment in the company by Intel for the development of multimedia capabilities for Intel processors. Gresham had a robust year while Thomson beat market expectations, assisted by the successful integration of Billetts and the signing on of WPP's GroupM. Once again Plasmon has disappointed on the back of the inability of the increase in UDO storage product sales to offset the decline of its legacy product revenues.

Overall the UK portfolio earnings are now estimated to grow 389% in 2006 and 226% in 2007; numbers that are distorted by the impact of Imagination's impressive forecasted growth in conjunction with its dominant share of the portfolio (Imagination represents 31% of the value of the UK portfolio). Similarly, the fact that most of the stocks are estimated to turn from loss to profitability in 2007, renders the '06 P/E of 72x misleading. Conversely, the 2007 P/E of 22.6x is much more indicative of the true valuation of the portfolio.

Europe and the Far East:

Having sold TomTom in December (which, during the 8 months it had been held, returned c.19%), our year end European portfolio consisted solely of the ADRs of Iona Technologies, the Irish Enterprise Application Integration company which saw its share price rise by 69%. The net effect was a portfolio return of 36%.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2006 *continued*

Given the tiny size of the portfolio, P/E and growth analytics are ambiguous and do not, thus, merit any commenting.

With only 4 stocks (Samsung, Star Publications, LG Electronics and UMC), the Far East portfolio also remained light, accounting for 8.4% of assets at year end. The portfolio returned -23%, rendering it the worst performing geographic region, mostly due to our exposure to Korea which had a disappointing year, with the KOSDAQ index depreciating by 13.6%. The strength of the Won in the year relative to the dollar as well as some inventory issues has adversely affected the margins of both LG and Samsung. The Far East portfolio, although still at a low P/E, characteristic of regional equities valuations (2006: 15.6x, 2007: 12.5x), represents a slight increase from six months ago whilst in the meantime, 2006 earnings growth has dropped to -14.8%. This primarily reflects the impact of LG's earnings downgrades during the year as a fraction of the small pool of earnings in the portfolio. At year end, 2007 earnings estimates growth stood at 23.2%.

Outlook:

2007 global economic expectations are generally for another year of strong corporate earnings and economic growth albeit moderated compared to 2006. In the US, as the housing slowdown continues to drag on growth with a possible negative ripple effect on personal consumption and private capital investment, economists are forecasting modest economic growth in 2007, with real GDP growth down to 2.6% from the estimated 3.3% in 2006. Similar growth rate decreases are also seen in Europe (2.2% from 2.7%) as well as the emerging Asian markets that are expected to slowdown from 7.8 to 7%. That, together with the ease in concerns over energy prices, reduces inflation estimates and consequently, mitigates pressure on interest rates worldwide. On the other hand, slower than expected growth that would force the Fed to cut rates, could also mean another year of dollar depreciation.

A number of technology companies have cited emerging markets as an area of strong growth. According to The Economist, the 32 largest emerging economies now account for 30% of the world's GDP (>50% at purchasing power parity). In a number of these economies the appetite for western consumerism has been demonstrated, and it appears that this is providing a powerful flywheel to drive world growth, which is unlikely to change. Although Far Eastern and Indian manufacturers, with their low labour costs and seemingly low valuations, have presented a challenge for their western counterparts, US companies have been particularly successful at retaining higher margins through intellectual innovation and leadership, as well as cultivating the power of the brand. Whilst corporate America has suffered from the expenses of Sarbanes-Oxley, and is forced to take option costs through their P&L, the high level of regulation and transparency does, from the Manager's perspective, justify a premium. This contributes to explaining the high weighting of the US in the portfolio.

The semiconductor industry, which together with Electronics account for c.54% of the fund's holdings, is estimated to grow revenues by another 10% in 2007, according to both the SIA and WSTS, on a par with 2006 semiconductor revenue growth. The industry's largest end-market, PCs, is expected to grow by at least 10% in 2007, accelerating from 7.8% in 2006. This increase is mostly attributed to Microsoft's new operating system, Vista, which with its 512MB of memory and DirectX9 graphics minimum system requirements, is expected to drive DRAM/Flash growth (positive for portfolio companies Samsung and Simpletech), dedicated graphics processor sales (Imagination Tech) and further down the supply chain, revenues for foundries such as UMC. The expected Vista-ready PC replacement cycle would also be positive for analogue and power management companies such as Texas Instruments and ON Semiconductor as well as for contract manufacturer, Jabil Circuit. The timing and magnitude of the impact of the newly released MS Vista on PC sales is still debatable however, and it is our belief that Vista will be a second half driver. In the meantime, we are positive on Apple and its Macintosh computers which have transitioned to Intel processors and Windows OS capabilities thus significantly lowering the transition barriers for consumer and corporate Windows users alike.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2006 *continued*

In the Consumer market, the flat panel TV sales growth of 8% in 2006 was relatively disappointing as retail prices, despite their 40% YoY ASP decline, have failed to reach the mass adoption price level of, roughly, \$500 for a 32" TV. That threshold is expected to be crossed in 2007 and should lead to faster industry revenue growth (~11%) and better sales from Samsung and LG. These companies should also reap the benefits of Vista's graphics-rich applications, in the form of widescreen LCD monitors. Game consoles growth has also not met expectations in 2006, mainly due to the continuous delays and shortages of Sony's Playstation 3, which, like the Xbox360, features an extremely powerful IBM PowerPC based processor. A PS3 supply ramp-up in 2007 as well as the recent release of the popular Nintendo Wii (also featuring an IBM core) should be significant drivers for the year for both the hardware suppliers and gaming software companies such as THQ.

Analyst estimates on handset unit sales in 2006 still range widely from 18%-23%. Despite the strong unit growth in the year, the shift in the mix towards low end phones, principally due to strong emerging markets has subdued revenues. For 2007, handset vendors are guiding for significantly lower growth (c.10%) within which 3G is expected to grow by as much as 50% (Citigroup estimates). This should be particularly positive for a number of our holdings: the licensor of all 3G chips in the world, Qualcomm; the clear market leader in baseband and application processors, Texas Instruments; ARM, whose processor core IP lies in the heart of both these chips and Imagination Technologies with its graphics acceleration IP in TI's application processors. For analogue semiconductor makers, the power hungry 3G applications open up a big market for their power management systems. In the event of a 2006 repeat scenario, wherein low cost units for emerging markets outperform again, TI's "one-chip solution" for handsets, the Locosto, is ideally positioned. A final, possibly quite interesting, development in the handset market has been Apple's unveiling of its \$600 iPhone at the recent Macworld 2007 event in the US, where Steve Jobs set a 1% market share target (~10m units) by 2008. Analysts believe this number to be conservative.

Gartner expects software markets to grow by 8% in 2007, slightly higher than the 7.3% of 2006. In what is expected to be another year of solid profitability for corporates, IT spending remains relatively strong with emphasis now on reducing the 80% of IT budgets currently been wasted on maintaining existing systems. This re-prioritisation has favoured firms, such as Citrix and Iona Technologies, with exposure to Services Oriented Architecture (SOA), an efficient way of building and delivering software applications using services delivered over a network, instead of the traditional client/server model. This of course would require faster data networks, thus driving sales for Cisco, the dominant player in network equipment as well as Foundry Networks, its high end competitor. Cisco should also benefit from the proliferation of VoIP and IPTV services, and their high bandwidth requirements, in consumer networks. The widespread adoption of broadband has also led to some recovery in wireline telecommunications capital expenditure. For example, Verizon is now rolling out Fibre-To-The-Premises to compete with cable TV operators enabling MRV Communications, a supplier of fibre optic equipment primarily for Metropolitan Area Networks, to benefit.

Most indicators going forward, point towards a benign environment of solid corporate earnings and consumer spend for 2007 that should provide the conditions for a good year in technology. Surely, dark clouds can be seen in the horizon: After 5 bull years in the semiconductor industry for example, the long overdue cyclical forces make veterans edgy; but the semiconductor industry has thus far displayed adequate self-control. After 5 years of unusually low inflation and interest rates globally on the back of cheap Chinese labour, economists begin to realise that these levels cannot be sustained forever; but the resilience demonstrated by the global economy together with the portfolio's expected earnings growth for 2007 of 34.5% gives us reason for optimism. This, compounded by the fact that in spite of the estimated earnings growth there is little to no premium relative to sectors such as property and utilities that have profited in recent years from declining interest rates (whose major decline seems to have run its course), underpins our confidence that 2007 will serve our Shareholders well.

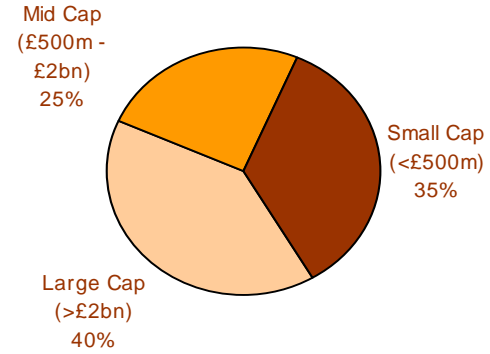
HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2006 *continued*

Portfolio Weightings

Breakdown by Market Cap 31 December 2006

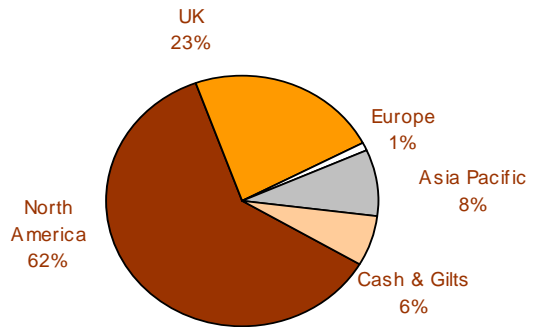
	31/12/2005	31/12/2006
Large Cap	36%	40%
Mid Cap	13%	25%
Small Cap	51%	35%



Breakdown by Market Cap as at 31/12/2006

Geographic Breakdown 31 December 2006

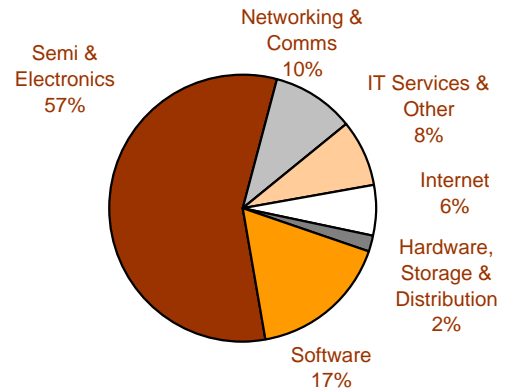
	31/12/2005	31/12/2006
North America	57%	62%
UK	32%	23%
Europe	1%	1%
Asia Pacific	9%	8%
Cash & Gilts	1%	6%



Geographic Breakdown as at 31/12/2006

Sector Split 31 December 2006

	31/12/2005	31/12/2006
Semiconductor & Electronics	35%	57%
Networking & Communications	8%	10%
Media & Content	10%	0%
IT Services & Other	9%	8%
Services	2%	6%
Distribution	11%	2%
Software	25%	17%



Sector Split 31st Dec 2006

HERALD INVESTMENT FUND PLC

SCHEDULE OF INVESTMENTS as at 31 December 2006

Nominal	Security Name	Value GBP	% of Fund
MALAYSIA - 2.62% (2005 - 4.27%)			
<i>PUBLISHING</i>			
740,000	Star Publications	323,659	2.62
MALAYSIA - TOTAL		323,659	2.62
KOREA - 5.11% (2005 - 3.72%)			
<i>CONSUMER ELECTRONICS</i>			
7,000	LG Electronics Inc	211,136	1.71
<i>SEMICONDUCTORS</i>			
1,250	Samsung Electronics	420,982	3.40
KOREA - TOTAL		632,118	5.11
UNITED KINGDOM - 22.90% (2005 - 32.68%)			
<i>COMPUTER HARDWARE</i>			
300,000	Plasmon	76,500	0.62
<i>CONSUMER ELECTRONICS</i>			
300,000	Amstrad Plc	469,500	3.79
<i>EQUITY INVESTMENT INSTRUMENTS</i>			
125,000	Herald Investment Trust Plc	477,500	3.86
<i>MEDIA AGENCIES</i>			
200,000	Thomson Intermedia Plc	470,000	3.80
<i>SEMICONDUCTORS</i>			
210,000	Arm Holdings	264,075	2.13
730,000	Imagination Technologies Group	797,525	6.44

HERALD INVESTMENT FUND PLC

SCHEDULE OF INVESTMENTS as at 31 December 2006 *continued*

Nominal	Security Name		Value GBP	% of Fund
UNITED KINGDOM <i>continued</i>				
<i>SOFTWARE</i>				
190,000	Gresham Computing		279,300	2.26
UNITED KINGDOM - TOTAL			2,834,400	22.90
 UNITED STATES - 62.65% (2005 - 53.05%)				
<i>COMPUTER HARDWARE</i>				
9,000	Apple Computer	(a)	389,863	3.15
<i>COMPUTER SERVICES</i>				
11,000	IBM		546,024	4.41
54,000	Iona Technologies Plc		135,197	1.09
<i>DEFENCE</i>				
22,000	Flir Systems Inc		357,796	2.89
<i>ELECTRICAL COMPONENTS & EQUIPMENT</i>				
17,000	Arrow Electronics		274,046	2.21
20,000	Jabil Circuit Inc		250,875	2.03
<i>INTERNET</i>				
25,000	Netease.com Inc		238,740	1.93
<i>MEDIA AGENCIES</i>				
60,000	Digitas Inc		410,801	3.32
<i>SEMICONDUCTORS</i>				
18,800	Analog Devices Inc		315,743	2.55
22,000	Microchip Technology		367,238	2.97
50,000	MIPS Technologies Inc	(a)	211,532	1.71
100,000	On Semiconductor Corp		386,276	3.12
50,000	Simpletech Inc		322,408	2.61
42,915	United Microelectronics Corp		76,526	0.62
30,000	Texas Instruments Inc		441,458	3.57
12,000	Xilinx Inc	(a)	145,743	1.18
<i>SOFTWARE</i>				
20,000	Citrix Systems Inc	(a)	276,116	2.23
20,000	Cognos Inc	(a)	433,794	3.51

HERALD INVESTMENT FUND PLC

SCHEDULE OF INVESTMENTS as at 31 December 2006 *continued*

Nominal	Security Name		Value GBP	% of Fund
UNITED STATES <i>continued</i>				
<i>SOFTWARE continued</i>				
20,000	Macrovision Corp	(a)	288,685	2.33
8,000	Manhattan Associates	(a)	122,668	0.99
21,000	Microsoft Corp	(a)	320,287	2.59
 <i>TELECOMMUNICATIONS EQUIPMENT</i>				
28,000	Cisco Systems		390,425	3.15
43,000	Foundry Networks Inc	(a)	329,121	2.66
190,000	MRV Communications	(a)	342,692	2.77
11,000	Qualcomm	(a)	212,339	1.72
 <i>TOYS</i>				
10,000	THQ Inc	(a)	166,057	1.34
UNITED STATES - TOTAL			7,752,450	62.65
TOTAL VALUE OF INVESTMENTS			11,542,627	93.28
(Cost: GBP 10,834,256)				
CASH *			884,186	7.14
OTHER NET LIABILITIES			(88,568)	(0.73)
TOTAL VALUE OF FUND AT BID PRICES			12,338,245	99.69
Adjustment from bid market prices to last traded market prices			37,756	0.31
TOTAL VALUE OF FUND AT LAST TRADED PRICES			12,376,001	100.00

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	26.18
Transferable securities admitted to an official stock exchange listing	67.10
Current assets	6.72
	100.00

* All cash is held with The Governor and Company of the Bank of Ireland.

The Industry Classification Benchmark ("ICB") is jointly owned by FTSE and Dow Jones and has been licensed for use. FTSE and Dow Jones do not accept liability to any person for any loss or damage arising out of any error or omission in the ICB.

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2006 (Unaudited)

MAJOR PURCHASES	GBP VALUE
IBM	506,308
TomTom	480,245
Samsung Electronic	477,241
Digitas Inc	453,923
On Semiconductor Corp	397,290
Cisco Systems	384,625
Microchip Technology	380,323
Flir Systems Inc	362,962
Texas Instruments Inc	352,773
Arm Holdings	248,822

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2006 (Unaudited) *continued*

MAJOR SALES	GBP VALUE
TomTom	552,124
Alphameric	551,239
Apple Computer	392,502
Advanced Digital Information	380,114
RSA Security Inc	367,334
Thomson Intermedia	223,874
Simpletech Inc	201,050
Serena Software Inc	194,637
Amstrad Plc	179,459
THQ Inc	155,242

HERALD INVESTMENT FUND PLC

INCOME STATEMENT for the year ended 31 December 2006

	Notes	GBP	Year ended 31/12/06 GBP	Year ended 31/12/05 GBP
Income				
Gross income	9	94,746		78,460
Net gains on investments at fair value through profit and loss	7	618,746		811,707
Other losses	8	(31,650)		(15,345)
Total investment income		681,842		874,822
Expenses				
	10	(248,831)		(185,719)
Net income			433,011	689,103
Profit for the financial year			433,011	689,103
Withholding tax on dividends and other investment income			(13,428)	(11,632)
			419,583	677,471
Adjustment from bid market prices to last traded market prices			(17,405)	55,161
Net increase in net assets attributable to redeemable participating shareholders			402,178	732,632

Gains and losses arose solely from continuing operations. There were no recognised gains and losses other than those dealt with in the Income Statement.

The notes on pages 24 to 31 are an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors of Herald Investment Fund Plc on 28 February 2007 and signed on its behalf by:

Alan Jeffers

Adrian Waters

HERALD INVESTMENT FUND PLC

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO REDEEMABLE PARTICIPATING SHAREHOLDERS for the year ended 31 December 2006

	Notes	GBP	Year ended 31/12/06 GBP	Year ended 31/12/05 GBP
Net assets attributable to redeemable participating shareholders at the beginning of the year			9,730,734	11,259,825
Net increase/(decrease) in net assets resulting from redeemable participating share transactions:				
Amounts received on sale of shares		3,511,721		-
Equalisation	5	(306,622)		325,120
Less: amounts paid on repurchase of shares		(962,010)		(2,586,843)
		2,243,089		(2,261,723)
Net increase in net assets attributable to redeemable participating shareholders from operations			402,178	732,632
Net assets attributable to redeemable participating shareholders at the end of the year			12,376,001	9,730,734

The notes on pages 24 to 31 are an integral part of these Financial Statements.

HERALD INVESTMENT FUND PLC

BALANCE SHEET as at 31 December 2006

	Note	31/12/06 GBP	31/12/05 GBP
CURRENT ASSETS			
Financial assets held at fair value through profit or loss:			
Transferable securities at fair value	2(e)	11,542,627	9,549,161
Cash and bank balances	12	884,186	403,437
Debtors	11	5,845	398
TOTAL CURRENT ASSETS		12,432,658	9,952,996
CURRENT LIABILITIES			
Creditors - amounts falling due within one year	13	(94,413)	(277,423)
TOTAL CURRENT LIABILITIES		(94,413)	(277,423)
Net assets attributable to redeemable participating shareholders (at bid prices)			
		12,338,245	9,675,573
Adjustment from bid market prices to last traded market prices		37,756	55,161
Net assets attributable to redeemable participating shareholders (at last traded prices) (2004: GBP 11,259,825)			
		12,376,001	9,730,734
Number of redeemable participating shares in issue (2004: GBP 1,092,418)		1,060,561	873,112
Net asset value per redeemable participating share (2004: GBP 10.31)		GBP 11.67	GBP 11.14

The notes on pages 24 to 31 are an integral part of these Financial Statements.

On behalf of the Board of Directors

Alan Jeffers

Adrian Waters

Date: 28 February 2007

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

1. Basis of presentation

The principal accounting policies and estimation techniques applied in the preparation of these Financial Statements are set out below. The Financial Statements have been prepared in accordance with the accounting standards generally accepted in Ireland. Accounting standards generally accepted in Ireland in preparing Financial Statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The Company has availed of the exemption available to open-ended investment funds under FRS 1 (revised) "Cash Flow Statements" not to prepare a Cash Flow Statement.

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 Income Statement and the Statement of Changes in Net Assets attributable to Redeemable Participating Shares on pages 21 and 22 respectively. In arriving at the results for the year, all amounts in the Income Statement on page 21 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 Regulation 2003 (as amended) and the Companies Act 1963 to 2006. 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 Company. Bank deposit interest is accounted for on an effective interest 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 sourced 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 at fair value. 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 at fair value in the Income Statement.

e) Investments at fair value

All investments in the Fund's Schedule of Investments are classified as held at fair value through profit and loss. 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 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.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006 *continued*

2. Significant accounting policies *continued*

f) 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.

g) Foreign exchange - Foreign currency translation

The functional currency of the Fund is Sterling reflecting the Fund's primary economic environment and the fact that subscriptions and redemptions in and out of the Fund are transacted in Sterling. 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 year-end. The foreign exchange gain or loss based on the translation of the original cost of the investment 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 translation and settlement dates on purchases or sales of non-Sterling investments are included in foreign exchange gains or losses in the Income Statement.

h) Redeemable Participating Shares

All Redeemable Participating Shares 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 shares at last traded prices. In accordance with FRS 25 the measure of fair value of a financial asset is the current bid-market price, the Redeemable Participating Shares need to be adjusted to bid-market prices to balance the Balance Sheet. Financial liabilities arising from the Redeemable Participating Shares issued by the Fund are carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

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 there is greater than the previous highest NAV of the Fund. The opening NAV is GBP11.14 pence per Share. This fee is calculated and accrued at each valuation point. No performance fee was earned during the period.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006 *continued*

3. Significant agreements *continued*

Administrator

The Administrator changed effective 1 July 2006 from State Street Fund Services (Ireland) Limited to Bank of Ireland Securities Services Limited.

The fee rates which applied to State Street Fund Services (Ireland) Limited, to 30 June 2006, were as follows:

Rate	NAV
0.15% p.a.	0 - GBP 20 Million
0.125% p.a.	GBP 20 Million - GBP 50 Million
0.10% p.a.	GBP 50 Million +

The fee rates which apply to Bank of Ireland Securities Services Limited, from 1 July 2006, are as follows:

Rate	NAV
0.12% p.a.	0 - GBP 25 Million
0.10% p.a.	GBP 25 Million - GBP 50 Million
0.08% p.a.	GBP 50 Million +

Custodian

The Custodian changed effective 1 July 2006 from State Street Custodial Services (Ireland) Limited to The Governor and Company of the Bank of Ireland.

The Custodian will be entitled to receive out of the assets of each Fund an annual fee, accrued daily and payable monthly in arrears, based on the number of transactions on the Net Asset Value of the Fund, of up to 0.015 per cent per annum of the Net Asset Value of the Fund. In addition, the Custodian will be reimbursed any reasonable out of pocket expenses and shall be reimbursed all sub-custodial and transactional fees and expenses which will be charged at normal commercial rates.

A fee of 0.025 per cent per annum of the Net Asset Value of the Fund was received by State Street Custodial Services (Ireland) Limited until 30th June 2006.

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 Tax 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 2006 *continued*

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. Comparative figures for equalisation have been reclassified from the Income Statement to the Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders to ensure consistency with current year figures. These changes have no effect on the Net Asset Value in the prior year.

	Year ended 31/12/2006 GBP	Year ended 31/12/2005 GBP
Income deducted on sale of Redeemable Participating Shares	(400,802)	-
Income received on repurchase of Redeemable Participating Shares	94,180	325,120
	<u>(306,622)</u>	<u>325,120</u>
	<u>(306,622)</u>	<u>325,120</u>

6. Net Asset Value per Redeemable Participating Share

The Net Asset Value per Redeemable Participating Share is determined by dividing the Net Asset Value per dealing prices by the total number of Redeemable Participating Shares in issue.

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 31/12/2006 GBP	Year ended 31/12/2005 GBP
Proceeds from sales of investments during the year		3,753,971	3,282,223
Original cost of investments sold during the year		(3,356,730)	(3,669,768)
		<u>397,241</u>	<u>(387,545)</u>
Gains/(losses) realised on investments at fair value sold during the year	2 (c)	397,241	(387,545)
Total unrealised movement for the year on investments at fair value through profit and loss		221,505	1,199,252
		<u>618,746</u>	<u>811,707</u>
Net gains on investments during the year		<u>618,746</u>	<u>811,707</u>

8. Other losses

	Note	Year ended 31/12/2006 GBP	Year ended 31/12/2005 GBP
Other losses comprise:			
Foreign exchange losses on capital assets	2 (g)	(31,650)	(15,345)
		<u>(31,650)</u>	<u>(15,345)</u>
		<u>(31,650)</u>	<u>(15,345)</u>

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006 *continued*

9.	Gross Income	Note	Year ended 31/12/2006 GBP	Year ended 31/12/2005 GBP
	Income from investments at fair value through profit or loss		80,070	74,028
	Bank interest	2 (b)	8,514	4,432
	Other income	2 (b)	6,162	-
			94,746	78,460
			94,746	78,460
10.	Expenses		Year ended 31/12/2006 GBP	Year ended 31/12/2005 GBP
	Payable to the Investment Manager			
	Investment Management fee	3	(88,218)	(78,227)
			(88,218)	(78,227)
			(88,218)	(78,227)
		Note	31/12/2006 GBP	31/12/2005 GBP
	Payable to the Administrator			
	Administration fee	3	(54,112)	(50,658)
	Registration fee	3	(4,761)	(3,740)
			(58,873)	(54,398)
			(58,873)	(54,398)
	Payable to the Custodian			
	Custody fee	3	(5,701)	(2,151)
	Sub-custody fee	3	-	(1,375)
			(5,701)	(3,526)
			(5,701)	(3,526)
	Other expenses			
	Audit fee		(18,039)	(13,955)
	Directors' remuneration		(29,740)	(25,245)
	Other		(48,260)	(10,368)
			(96,039)	(49,568)
			(96,039)	(49,568)
	Total expenses		(248,831)	(185,719)
11.	Debtors		31/12/2006 GBP	31/12/2005 GBP
	Accrued income		5,845	398
			5,845	398

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006 *continued*

12. Cash and bank balances

	31/12/2006	31/12/2005
	GBP	GBP
Cash and bank balances	884,186	403,437

All cash and bank balances are held with The Governor and Company of the Bank of Ireland.

13. Creditors

	31/12/2006	31/12/2005
	GBP	GBP
Amounts payable on repurchase of shares	-	(223,394)
Accrued expenses	(94,413)	(54,029)
	<u>(94,413)</u>	<u>(277,423)</u>

14. Exchange rates

The following GBP exchange rates used in this report were:

	Year ended	Year ended
	31/12/2006	31/12/2005
	GBP	GBP
EUR	1.4842	1.4554
KRW	1,820.1498	1,735.3767
MYR	6.9048	6.4885
NOK	12.1859	11.6245
TWD	63.7738	56.3832
US\$	1.9572	1.7167

15. Purchases and sales of investments during the year

	Year ended	Year ended
	31/12/2006	31/12/2005
	GBP	GBP
Total purchases	5,140,094	1,126,216
Total sales	<u>3,753,971</u>	<u>3,282,223</u>

16. Related party transactions

Herald Investment Management Limited, who acts as Investment Manager of the Fund earned GBP 88,218 (2005: GBP 78,227) during the year for providing this service. At the year end GBP 7,843 (2005: GBP 6,114) was due to Herald Investment Management Limited.

Herald Investment Fund plc invests into the Herald Investment Trust Plc. The value of this holding as at 31 December 2006 is GBP 477,500.

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 2006 *continued*

18. Financial instruments and risks

The financial instruments of the Fund are set out in the Schedule of Investments on pages 16 to 18.

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 purpose of efficient portfolio management.

A substantial portion of the investments of the Fund are denoted in currencies other than GBP and are included below:

2006	Investments	Other Net Assets	Total
Currency	GBP	GBP	GBP
KRW	632,118	-	632,118
TWD	76,526	-	76,526
MYR	323,659	-	323,659
US\$	7,540,727	8	7,540,735
EUR	135,197	(18)	135,179
	<u>8,708,227</u>	<u>(10)</u>	<u>8,708,217</u>

2005	Investments	Other Net Assets	Total
Currency	GBP	GBP	GBP
KRW	360,210	-	360,210
TWD	-	7,555	7,555
MYR	419,129	-	419,129
US\$	5,718,920	1,727	5,720,647
	<u>6,498,259</u>	<u>9,282</u>	<u>6,507,541</u>

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006 *continued*

18. **Financial instruments and risks** *continued*

Credit and Settlement Risk

Each Fund will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Investment Manager may instruct the Custodian to settle transactions on a delivery free of payment basis where the Investment Manager believes that this form of settlement is appropriate. Shareholders should be aware, however, that this may result in a loss to the Fund if a transaction fails to settle and the Custodian will not be liable to the Fund or to Shareholders for such a loss.

19. **Subscriber Shares**

As at 31 December 2006, 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 28 February 2007.

HERALD INVESTMENT FUND PLC

OTHER INFORMATION

Directors of the Company

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

Registered Office

DHKN Corporate Services Limited
Taney Hall
Eglinton Terrace
Dundrum
Dublin 14
Ireland

Investment Manager

Herald Investment Management Limited
10-11 Charterhouse Square
London EC1M 6EE
England
www.heralduk.com

Independent Auditors

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

Administrator

From 1 January 2006 - 30 June 2006
State Street Fund Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

Custodian

From 1 January 2006 - 30 June 2006
State Street Custodial Services (Ireland) Limited
Guild House, Guild Street
International Financial Services Centre
Dublin 1
Ireland

From 1 July 2006

Bank of Ireland Securities Services Limited
New Century House
Mayor Street Lower
International Financial Services Centre
Dublin 1
Ireland

From 1 July 2006

The Governor and Company of the Bank of Ireland
New Century House
Mayor Street Lower
International Financial Services Centre
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Ireland

Legal Advisers

In Ireland

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
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Company Secretary

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Sponsoring Broker

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* Independent Directors