

HERALD INVESTMENT FUND PLC

- The Herald Worldwide Fund

ANNUAL REPORT for year ended 31 December 2003

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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 ("HIF") was incorporated on 12 February 1998 as an open ended, variable capital investment company under the laws of the Republic of Ireland and is listed on the Irish Stock Exchange. HIF is organised in the form of an umbrella fund under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended) ("UCITS Regulations, 2003 (as amended)").

The Articles of Association provide for separate funds, each representing interests in defined portfolios of assets and liabilities which may be established from time to time with prior approval of the Irish Financial Services Regulatory Authority (the "Authority"). HIF 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 security markets. In particular, the Fund may be exposed to risks of expropriation, nationalism and confiscation of assets and changes in legislation relating to the permitted level of foreign ownership.

Currency risk

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

Market risk

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

PRICES

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

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

HERALD INVESTMENT FUND PLC

GENERAL INFORMATION *continued*

DEALING

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

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

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

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

Tel: + 353-1-8538300

Fax: + 353-1-8538557

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

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

Mr. Justin Egan resigned from the Board of Directors on 31 March 2003 and Mr. Adrian Waters was appointed to the Board of Directors on the same date.

The Central Bank of Ireland was re-structured and re-named as the Central Bank and Financial Services Authority of Ireland on 1 May 2003. The supervision of all financial institutions operating in Ireland was consolidated under an autonomous body - the Irish Financial Services Regulatory Authority (the "Authority").

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

A revised Prospectus was issued on 13 November 2003 which incorporated the following:

- * An update to the distribution policy of The Herald Worldwide Fund (the "Fund");
- * The change in ownership of the Administrator and the Custodian;
- * The appointment of Mr. Adrian Waters as a Director of the Company;
- * An update of the taxation disclosures;
- * The renewal of the Director's authority to allot securities; and
- * The establishment of the Irish Financial Services Regulatory Authority and its assumption of the responsibility for regulation of Collective Investment Schemes in Ireland from the Central Bank of Ireland.

HERALD INVESTMENT FUND PLC

DIRECTORS' REPORT for the year ended 31 December 2003

The Directors present herewith their report together with the audited financial statements for the year ended 31 December 2003.

Results and Business Activities

The results of operations for the year are set out in the Statement of Total Return on page 20. Regarding the business activities of the Fund during 2003 please refer to the Investment Manager's Report on pages 10 to 14.

Dividends

No dividend is proposed for the year ended 31 December 2003.

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, the Advisory Committees of ING UK Residential Fund and of BH&S 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 Committees of ING UK Residential Fund and of BH&S 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 :

	2003	2002
William Backhouse and connected persons	12,597.47 Shares	10,821.27 Shares
David Boyle and connected persons	12,182.21 Shares	12,182.21 Shares

None of the other Directors had interests in the Shares of the Company at 31 December 2003 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 2003 *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 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 2002, 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 2003.

On behalf of the Board of Directors

Mr Alan Jeffers

Mr Adrian Waters

Date: 5 March 2004

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 2001 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.

On behalf of the Board of Directors

Mr Alan Jeffers

Mr Adrian Waters

Date: 5 March 2004

HERALD INVESTMENT FUND PLC

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

We have audited the financial statements on pages 15 to 17 and 20 to 27 which have been prepared under the historical cost convention, as modified by the inclusion of investments at valuation, and the accounting policies set out on page 22.

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001 and the European Communities (Undertakings for Collective Investments in Transferable Securities) Regulations 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 Company's 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, information specified by law regarding Directors' remuneration and transactions is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2003, and its profits for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003 (as amended).

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

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

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

Date: 5 March 2004

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 2003, 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 (as amended); and
- b) otherwise in accordance with the provisions of the Memorandum and Articles of Association and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended).

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

Date : 5 March 2004

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2003

INVESTMENT MANAGER'S REPORT

The defined remit for the Fund is to invest globally in information technology, communications and multi-media. The Investment Manager believes that this area of the economy offers growth greater than the world economy as a whole, and therefore presents attractive investment opportunities. In addition the Investment Manager offers focused specialist management. The Fund was launched in April 1998 with an initial net asset value of GBP13.0m. At 31 December 2003, the net asset value was GBP14.8m.

Capital performance for the 12 months to 31 December 2003

Herald Worldwide Fund NAV +63.1%

US

Russell 1000 Large Cap Technology +33.2%

Russell 2000 Small Cap Technology +46.9%

NASDAQ Composite +34.9%

S&P 500 +13.7%

Russell 2000 Small Cap +30.7%

UK

FTSE techMARK 100 +56.4%

FTSE Information Technology +63.2%

FTSE 100 +13.6%

FTSE Small Cap +35.9%

Europe

Neuer Markt +75.2%

Nouveau Marché +36.4%

FTSE EUROTOP 300 +20.8%

DAX +48.2%

CAC 40 +25.5%

Asia Pacific

JASDAQ +75.2%

Nikkei 225 +24.3%

Hang Seng +21.9%

All returns £STG adjusted.

Source: Herald Investment Management Limited, Bloomberg.

Introduction

There has been a satisfactory return of 63.1% per Share in 2003, reflecting some recovery from the oversold positions at the start of the year. The Fund appreciated 31.6% in the first half, 51.3% by the end of the third quarter, and further in the fourth quarter as evidence of profit recovery became tangible. The initial 51.3% we regard as a bounce from a technically oversold position, when the market over reacted from the irrational exuberance at the turn of the century when the NASDAQ peaked at nearly 5050 in March 2000. It then declined progressively to a low of 1114 in October 2002 before rallying significantly from mid-October to the end of November, when another bout of uncertainty fuelled by the situation in Iraq came in, and the NASDAQ dipped again to 1271 in March 2003. From that point the direction of the NASDAQ and the Fund has generally been positive. The NASDAQ closed the year at 2003, a rise of 58% from the low, and a rise of 33.8% for the year. We regard the further rise in the final quarter as a reflection of the strong economic recovery, which has tangibly fed through to improved trading for most companies.

United States

The US portfolio has grown by 49.2% in GBP terms. This compares favourably not only with the NASDAQ return, but also with the Russell Technology Indices. It is noticeable that small companies have outperformed large companies, with R1Tech rising only 33.2% in GBP versus R2Tech rising 46.9% in GBP. This reflects underperformance by Microsoft, which is by far the largest weighting in the index, because it rose only 5.9% in US\$ terms, which equates to a GBP decline of c5%. IBM which had the second heaviest weighting at the start of the year grew by only 19.6% in US\$ terms. These stocks had proved particularly resilient in the downturn. The portfolio had an underweight position in Microsoft and no IBM, and it also had six holdings, which appreciated more than 100%.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2003 *continued*

The US remains the dominant innovator and commercial exploiter of new technology, and this remains by far the most important market. Through aggressive stimulus the economy grew at 8% in the third quarter, and the consensus believes there will be strong growth in 2004 of c4.4%. Furthermore this growth is similar to global growth, which provides a usefully robust background. US profits are additionally benefiting from the aggressive cost cutting that has taken place over the past two years.

United Kingdom

The UK portfolio grew by 138.6%. In contrast the Techmark 100 Index grew by 56.4%. Fortunately the portfolio benefited from holdings in two of the three best performing stocks in Techmark- Amstrad and Gresham. Five other holdings also grew in excess of 100%. Included in this is an investment in Herald Investment Trust plc. Herald Investment Trust is listed on the London Stock Exchange and is managed by the Manager of the Fund. Warrants were acquired in the autumn of 2002 which were subsequently exercised. The timing proved satisfactory, it being one of the best performing holdings in the Fund.

Europe and Far East

The European portfolio grew 68.1%, but this was a very small proportion of the Fund. The Neuer Market Index is still tracked, although the market has closed, and grew 62.1% or 75.2% in GBP. The Nouveau Marche in France on the other hand grew only 36.4% in GBP. The Far East grew 6.7%, and was adversely affected by currency.

Market Background

There is tangible evidence that a number of markets have improved. The sector covers a wide range of markets, but we draw attention to some of the major trends.

Semiconductors. The semiconductor indices have been the strongest sub-sector in the US with the Bloomberg Index rising 77.2% in GBP albeit the Philadelphia Index has only risen by 58.0% in GBP. The Semiconductor Industry Association announced 25.7% year on year growth in sales in November to \$16.1bn, therefore year to date sales growth of 17.4% making earlier forecasts of 15.5% growth now look too low. The month on month growth was 4.5%! Rising PC sales contributed to the industry's growth in the month, with DRAM up 4.0% and Microprocessors up 3.5%. The global wireless market also continued to exhibit strong growth, with Flash up 11.2% and Digital Signal Processors up 3.5% in November. There have already been shortages in certain areas such as flash memory, which has been driven by mobile phones with colour screens and cameras, which require more memory. Global consumer electronics markets, which tend to show strong sales in the December quarter, grew briskly in November, reflecting the holiday buying season and eager adoption of multi-functional devices by consumers around the world. Sales of DVDs and digital cameras were especially strong. Optoelectronics were up 5.3 percent in November, MOS logic used in products other than computers were up 4.8 percent, and application specific Analog was up 4.6 percent. In general capacity utilisation of the SIA was 95%, which is boom levels, and implies price rises next year, product shortages and heavy capital expenditure. In contrast, in the trough utilisation fell below 40% in the foundries. Through the downturn Intel and Samsung have maintained a high level of spending, but most manufacturers have cut back aggressively, and there is now evidence that demand for equipment is returning strongly. A further driver for investment is the on-going technology development such as 300mm wafers- there are now 17 300mm fabs in production worldwide, and tighter tolerances with 0.09µm emerging.

The semiconductor industry is obviously to some degree a barometer of the end user demand for their customers, however the highly capital intensive nature of the business means that it is prone to volatile swings, with pricing exaggerating cycles, as well as destocking and restocking. It is ironic how much investment in sophisticated ERP and supply chain management systems has been made over the last decade, and yet in this downturn the stocking issue seems not to have reduced but to have been magnified by the extra link in the chain of the outsourced manufacturers. Fear and greed tangibly affects markets other than Share prices!

The markets that are driving semi-conductor demand deserve closer inspection. **Mobile phone** sales fell sharply in Western Europe in 2002 from c115.3m to 97.7m, but this was more than offset by growth in Asia and the US, so that total handset sales were c425m. It seems that this figure will rise to 475m in 2003, with Western European sales recovering to c105m. There are reports of certain shortages so we await year end reports. Modest growth is expected next year to c500m. However, the mix is important as GSM will continue to lag CDMA in growth as the US, China and India grow. The handset manufacturers will rely on a shift to higher value phones with colour screens, cameras and PDA functionality driving the replacement cycle, and supporting otherwise declining average selling prices. Meanwhile there are signs that investment in 3G will be made in Europe, which is much needed by the equipment suppliers.

Digital cameras are a second area that has driven demand for flash memory, and CMOS camera chips. Volumes have grown in the US from c6.5m in 2001 to 9.3m in 2002, 12.9m in 2003 and there are forecasts for c17m in 2004.

HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2003 *continued*

The Internet and broadband. After all the excessive hype about the Internet in 1999-2000, it is solidly growing in usage as well as penetration. There were reports that US on-line sales grew 30% year on year over the Christmas holiday- numbers the high street retailers will envy. It is still evolving, but the race for on-line content has migrated to interactive applications. Forrester provocatively describes the web as dead, but that the Xinternet is the next wave. This is the extended Internet, which is programmable and interactive. Over the next ten years billions of devices will be connected to the Internet i.e. receive remote instructions using the Internet protocol. The statistics for broadband are, as expected, showing strong growth. Around 12.5m cable modems were shipped in 2003, and this is expected to rise c30% in 2004. Meanwhile DSL customer premises equipment volumes grew 30% in 2003 to 27.7m, and are expected to rise 9% in 2004. It is remarkable how much greater penetration is in the Far East with Korea leading the way with 40% consumer penetration. According to IDC research, the number of consumer broadband connections in Western Europe - 18.7 million at the end of 2003 - will grow by 36% CAGR to almost 50 million at the end of 2007. Between 2003 and 2007, the proportion of Western European households online is expected to increase from 44% to 52%. Online household penetration is expected to increase from 36% to 46% in France, 47% to 53% in Germany, and 56% to 64% in the UK.

In the US the average consumer spends \$30-40 per month on voice telephony, and \$35-40 per month on data and falling. Analogue video revenues are c\$40 per month, while digital video is \$50 per month; enhanced digital video (VOD, HDTV) is \$70 per month, while triple play is \$100 per month, which includes voice, data, VOD and HDTV. This is pressurising investment by cable companies and telephone companies, who do not want to lose revenues to each other or satellite providers, and do want \$100 per month average revenue per consumer. There is increasing speculation, and indeed RFPs (requests for purchase) suggesting that the incumbent telephone operators will roll-out fibre to the premises in order to get video on demand by telephone, while there also seems to be regulatory encouragement to do so. There is no substantive evidence, but the speculation is that one reason for the slower roll-out of broadband in the US is because the network is older, and the population is dispersed over longer distances than in Korea or Tokyo, so broadband is more of a technical challenge. After a horrendous period for telecoms equipment suppliers, where massive over ordering and subsequent destocking compounded the pain, there are glimmers of recovery.

LCD flat panel screens are another fast growing market. There has been a big switch from cathode ray tube monitors to LCDs. In 2002 the market was c29.3m, and estimates for 2003 are 34.3m rising to 46.2m in 2004. There is now a switch from 15" LCDs to 16/17" and 18". In 2001 nearly 80% of LCD monitors were 15"; this has fallen to less than 60% in 2003, and is expected to decline to a third by 2006. Larger screens use more components, hence the higher cost. The emerging market is for LCD TVs. This market started in Japan. LCD TV sales in Japan were c¥100bn in 2002, and c60% of that was in the US. In contrast the Japanese CRT TV market is c¥400bn, while the PDP (plasma) TV market was worth ¥130bn. However, sales have been rising steadily in 2003, and are up c50% on 2002. There are estimates that LCD TVs may be 15% of world TV sales by 2007 i.e. c20m units. In 2003 the market is c3000 units, and nearly 5000 units are expected in 2004. TVs are one of the few items of consumer electronics where the ASP is actually rising, reflecting not just LCDs but also widescreen, NICAM, surround sound, integrated DVDs and so on. LCD manufacturing requires fabs similar to semiconductor ones, and supplied by the semiconductor equipment manufacturers, providing a greater boost to their recovery.

PCs remain the largest single market. At 31 December 2003 the combined market capitalisation of Microsoft, Intel, Dell and HP was cUS\$0.7Tr (which compares with a US\$1.8Tr market value for FTSE-100 at the year end- coincidentally similar in size to R1Tech). These stocks account for c36% of the Russell 100 Technology Index.

2003		2003	Market	2002	Market	Growth
Rank	Vendor	Shipments	Share	Shipments	Share	2003/2002
1	Dell	25,833	16.9%	20,675	15.1%	25.0%
2	HP	25,009	16.4%	21,844	16.0%	14.5%
3	IBM	9,000	5.9%	8,020	5.9%	12.2%
4	Fujitsu/Fujitsu Siemens	6,375	4.2%	5,818	4.2%	9.6%
5	Toshiba	5,080	3.3%	4,348	3.2%	16.8%
	Others	81,271	53.3%	76,208	55.6%	6.6%
	All Vendors	152,568	100.0%	136,913	100.0%	11.4%

Source IDC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2003 *continued*

Furthermore IBM, which is a leading PC manufacturer, and Cisco, which joins them together in networks, accounts for a further 19%, so these six stocks account for more than half the market value of R1Tech and the FTSE-100, albeit just under 20% of the FTSE-100 sales. PC volumes have grown c11.4% to 152.6m units in 2003, but growth is less in value terms. Intel has been the best performing PC stock, having under performed the most, reflecting the semiconductor capital equipment leverage, and its strong market position.

Although prices continue to erode, notebooks are more expensive and growth in notebooks has exceeded the overall market. The table above illustrates that the big brands are continuing to gain market share. The replacement cycle should lead to further growth this year, but pricing remains ferociously competitive and analogous to the motor industry. We continue to believe that being underweight in the PC sector should contribute to out performance again in 2004.

Corporate IT spend. The Bloomberg Software Index was the weakest, growing by only 6.5% in GBP. This index is clearly influenced by Microsoft, which accounts for c27%. Nevertheless corporate IT spend has grown by less than 2% in 2003. Oracle accounts for 13% of the index and grew by only 22% in US\$ last year. There will be some recovery in corporate IT spend, but the days of large bespoke projects are numbered. We remain cautious on IT services businesses, which have the additional burden of competing with Indian developers. India is deflating this sector. Growth seems more probable in security, storage and wireless networking. Cisco acknowledges that the big corporates are networked, and they have to focus on smaller entities and the consumer for growth. (Wireless home networks will grow hand in hand with broadband.)

If the large markets are maturing, which dominate the IT budgets, there is still scope for small growth in IT spend to equate to large spend in certain markets.

Advertising. The media sector has been a drag on the portfolio this year, having outperformed in the downturn. Nevertheless, there are signs of recovery. Zenith have estimated 3.4% nominal growth in advertising spending in 2003 (1.3% real), but the US has grown c3%, Asia-Pacific 5% and Europe 1.8%, which is a decline in real terms. The UK is up 1.1%. World growth is expected to accelerate to 4.7% in 2004, with Europe again lagging at 3%. Business to business advertising ought to recover faster than consumer advertising which dominates the statistics. At any rate the consumer in the UK and US has continued spending at record levels, albeit there is some uncertainty in the UK about how good Christmas has been. The technology sectors will almost certainly provide more interest in the short term.

A major disappointment during the year for the Fund was the loss of access to the ARIN (Adjustable Rate Index Note - a mechanism to allow the Fund to profit from declining securities) last year, when the broker who provided this instrument withdrew. It has not been an issue in the rising markets of the last twelve months. At this moment in time the Fund does not have access to this instrument, but we continue to seek an alternative.

Outlook

The valuations are not as compelling as they were a year ago, and there are structural flaws in the global economy, such as the US trade deficit, levels of consumer debt, fiscal problems that have spread to the US and the UK and the continued threat of terrorism. From our micro perspective, the combination of US technologies and Chinese manufacturing looks awesome. In consequence it is hard to be enthusiastic about other markets. However, there are not appropriate vehicles to invest directly in China, and US valuations are higher than elsewhere. Nevertheless, with increased competition in so many traditional sectors, and the probability of a bond bear market, I cannot think of an asset class that we would rather manage, and recovery in the US is robust, with huge leverage for profits.

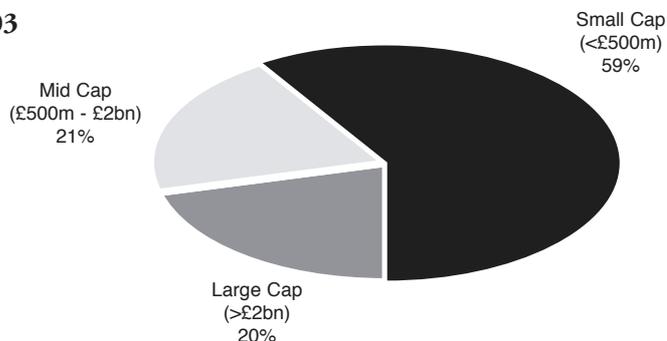
HERALD INVESTMENT FUND PLC

INVESTMENT MANAGER'S REPORT for the year ended 31 December 2003 *continued*

Portfolio Weightings

BREAKDOWN BY MARKET CAP 31 DECEMBER 2003

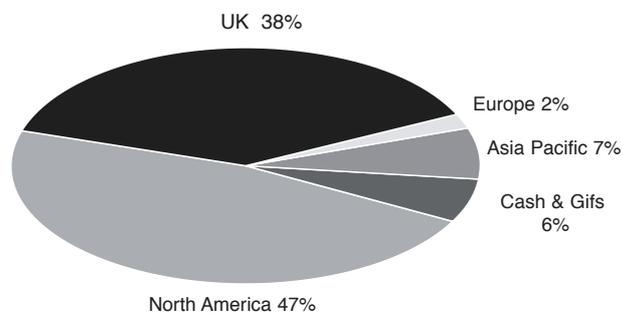
	31/12/02	31/12/03
Large Cap	26%	20%
Mid Cap	25%	21%
Small Cap	49%	59%



Source: Herald Investment Management Limited.

GEOGRAPHIC BREAKDOWN 31 DECEMBER 2003

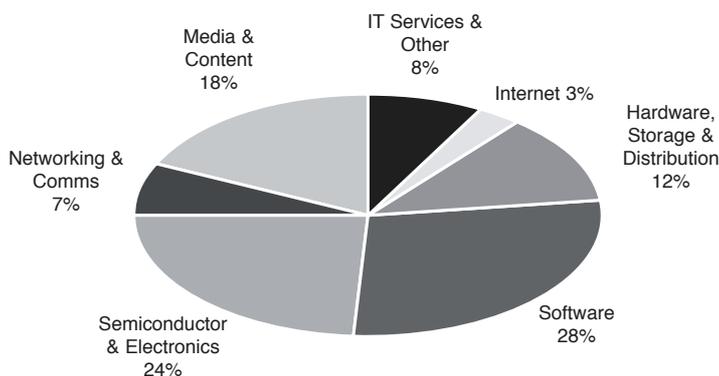
	31/12/02	31/12/03
North America	58%	47%
UK	26%	38%
Europe	5%	2%
Asia Pacific	9%	7%
Cash & Gilts	2%	6%
ARIN	0%	0%



Source: Herald Investment Management Limited.

SECTOR SPLIT 31 DECEMBER 2003

	31/12/02	31/12/03
Semiconductor & Electronics	14%	24%
Networking & Communications	5%	7%
Media & Content	26%	18%
IT Services & Other	18%	8%
Internet Infrastructure & Services	6%	3%
Hardware, Storage & Distribution	13%	12%
Software	18%	28%



Source: Herald Investment Management Limited.

Herald Investment Management Limited
19 January 2004

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2003

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
AUSTRIA 0.29% (2002: 0.28%)				
<i>COMMERCIAL SERVICES AND SUPPLIES</i>				
50,000	Plaut AG	(a)	43,333	0.29
BERMUDA 0.78% (2002: NIL)				
<i>WIRELESS TELECOMMUNICATION SERVICES</i>				
200,000	SmarTone Telecommunications Holding Limited		114,403	0.78
CANADA 2.32% (2002: 3.01%)				
<i>SOFTWARE</i>				
20,000	Cognos Inc	(a)	342,094	2.32
HONG KONG 0.82% (2002: 1.93%)				
<i>DIVERSIFIED TELECOMMUNICATION SERVICES</i>				
114,000	Asia Satellite Telecommunications Holdings Limited		120,986	0.82
IRELAND 1.00% (2002: 0.44%)				
<i>INTERNET SOFTWARE AND SERVICES</i>				
54,000	Iona Technologies plc	(a)	146,904	1.00
ISRAEL 1.96% (2002: 1.50%)				
<i>COMPUTERS AND PERIPHERALS</i>				
30,000	M-Systems Flash Disk Pioneers Limited	(a)	289,585	1.96
ITALY NIL (2002: 1.80%)				
MALAYSIA 2.29% (2002: 3.75%)				
<i>MEDIA</i>				
370,000	Star Publications (Malaysia) Berhad		337,225	2.29
NORWAY 0.63% (2002: 0.56%)				
<i>COMMUNICATIONS EQUIPMENT</i>				
80,000	Nera ASA		92,699	0.63
SINGAPORE 1.43% (2002: 0.77%)				
<i>ELECTRONIC EQUIPMENT AND INSTRUMENTS</i>				
32,000	Venture Corporation Limited		210,512	1.43
TAIWAN 1.39% (2002: 2.29%)				
<i>SEMICONDUCTOR EQUIPMENT AND PRODUCTS</i>				
111,600	Realtek Semiconductor Corp		106,503	0.72
35,883	United Micro Electronics Corp		99,221	0.67
UNITED KINGDOM 38.00% (2002: 26.44%)				
<i>COMMUNICATIONS EQUIPMENT</i>				
700,000	Amstrad plc		889,000	6.03
<i>COMPUTERS AND PERIPHERALS</i>				
250,000	Clinical Computing plc		96,250	0.65
200,000	Plasmon plc		504,000	3.42
<i>ELECTRONIC AND ELECTRICAL EQUIPMENT</i>				
30,000	Acal plc		150,000	1.02

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2003 *continued*

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
UNITED KINGDOM 38.00% (2002: 26.44%) <i>continued</i>				
<i>INVESTMENT COMPANIES</i>				
245,000	Herald Investment Trust plc		796,863	5.40
<i>IT CONSULTING AND SERVICES</i>				
630,000	Alphameric plc		548,100	3.71
<i>MEDIA AND PHOTOGRAPHY</i>				
380,000	Aegis Group plc		375,250	2.54
150,000	Taylor Nelson Sofres plc		312,000	2.11
<i>SOFTWARE AND COMPUTER SERVICES</i>				
375,000	Focus Solutions Group plc		131,250	0.89
180,000	Gresham Computing plc		600,300	4.07
32,000	Misys plc		67,760	0.46
550,000	Patsystems plc		96,250	0.65
1,084,332	The Innovation Group plc		298,191	2.02
<i>SUPPORT SERVICES</i>				
800,000	Thomson Intermedia plc		268,000	1.82
<i>TELECOMMUNICATIONS SERVICES</i>				
500,000	Colt Telecom Group plc		473,750	3.21
UNITED STATES 42.89% (2002: 54.77%)				
<i>COMMUNICATIONS EQUIPMENT</i>				
10,000	Advanced Fibre Communications Inc	(a)	112,560	0.76
10,000	Black Box Corp	(a)	257,353	1.74
90,000	MRV Communications Inc	(a)	189,034	1.28
<i>COMPUTERS AND PERIPHERALS</i>				
60,000	Advanced Digital Information Corp	(a)	469,234	3.18
20,000	Apple Computer Inc	(a)	238,751	1.62
22,000	EMC Corporation		158,780	1.08
<i>ELECTRONIC EQUIPMENT AND INSTRUMENTS</i>				
8,500	Arrow Electronics Inc		109,873	0.74
10,000	Jabil Circuit Inc		158,087	1.07
<i>INTERNET SOFTWARE AND SERVICES</i>				
90,000	Chordiant Software Inc	(a)	273,999	1.86
35,000	Onesource Information Service Inc	(a)	184,174	1.25
38,000	Verisign Inc	(a)	346,004	2.35
<i>IT CONSULTING AND SERVICES</i>				
8,000	Manhattan Associates Inc	(a)	123,520	0.84
<i>MEDIA</i>				
21,000	Comcast Corp	(a)	366,941	2.49
10,000	Getty Images Inc	(a)	280,032	1.90
20,000	Macrovision Corp	(a)	252,381	1.71
15,000	Viacom Inc		371,868	2.52

HERALD INVESTMENT FUND PLC

PORTFOLIO OF INVESTMENTS as at 31 December 2003 *continued*

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
UNITED STATES 42.89% (2002: 54.77%) <i>continued</i>				
<i>SEMICONDUCTOR EQUIPMENT AND PRODUCTS</i>				
18,800	Analog Devices Inc		479,412	3.24
32,500	Asyst Technologies Inc	(a)	314,987	2.13
18,000	Credence Systems Corp	(a)	132,324	0.90
12,000	Xilinx Inc	(a)	259,688	1.76
<i>SOFTWARE</i>				
20,000	Citrix Systems Inc	(a)	236,963	1.61
21,000	Microsoft Corp	(a)	323,068	2.19
20,000	NetScout Systems Inc	(a)	84,909	0.58
25,000	RSA Security Inc	(a)	198,307	1.34
15,000	Serena Software Inc	(a)	153,758	1.04
26,750	THQ Inc	(a)	252,686	1.71
TOTAL INVESTMENTS			13,839,122	93.80
Current assets			967,394	6.56
Total assets			14,806,516	100.36
Current liabilities			(51,957)	(0.36)
NET ASSETS			14,754,559	100.00

	31 DECEMBER 2003	31 DECEMBER 2002	31 DECEMBER 2001
Net Asset Value	GBP 14,754,559	GBP 9,665,089	GBP 23,801,071
Number of Shares in Issue	1,559,098	1,665,335	2,025,518
Net Asset Value per Share	GBP 9.46	GBP 5.80	GBP 11.75

Classification

(a) Transferable securities dealt in on another regulated market

All other securities are transferable securities admitted to official stock exchange listing.

Analysis of Total Assets

	% of Total Assets
Transferable securities as described in classification (a) above	39.66
Transferable securities admitted to an official stock exchange listing	53.81
Current assets	6.53
	<u>100.00</u>

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2003 (Unaudited)

MAJOR PURCHASES	GBP VALUE
Alphameric plc	494,486
Colt Telecom Group plc	365,270
Amstrad plc	317,524
Apple Computer Inc	266,209
Amdocs Limited	256,111
Macrovision Corp	245,009
Plasmon plc	207,652
M-Systems Flash Disk Pioneers Limited	200,239
Gresham Computing plc	189,509
SmarTone Telecommunications Holding Limited	151,286
Taylor Nelson Sofres plc	140,324
MRV Communications Inc	137,429
BEA Systems Inc	131,106
Zoran Corp	125,742
Clinical Computing plc	123,483
Anite Group plc	119,592
Advanced Fibre Communications Inc	105,940
Venture Corporation Limited	94,374
Iona Technologies plc	55,237
The Innovation Group plc	50,979
Serena Software Inc	44,311

HERALD INVESTMENT FUND PLC

PORTFOLIO CHANGES for the year ended 31 December 2003 (Unaudited) *continued*

MAJOR SALES	GBP VALUE
Surfcontrol plc	459,114
Chordiant Software Inc	425,907
Azlan Group plc	425,529
Multex.Com Inc	407,839
Amstrad plc	400,293
Amdocs Limited	298,271
Rolfe & Nolan plc	270,300
Check Point Software Technologies Limited	209,712
Herald Investment Trust plc	199,399
BEA Systems Inc	195,910
Zoran Corp	189,635
Onesource Information Service Inc	187,486
Gresham Computing plc	180,661
Anite Group plc	173,602
AOL Time Warner Inc	163,030
Taylor Nelson Sofres plc	156,528
Electronic Data Systems Corp	153,707
Reply SpA	133,788
The Innovation Group plc	131,475
Wind River Systems Inc	129,774
Keynote Systems Inc	115,589
Flextronics International Limited	114,023
Minorplanet Systems plc	110,350
SCMP Group Limited	93,089
MRV Communications Inc	92,622
Aegis Group plc	88,787
Analog Devices Inc	62,416

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

HERALD INVESTMENT FUND PLC

STATEMENT OF TOTAL RETURN for the year ended 31 December 2003

	Note	GBP	Year ended 31/12/03 GBP	GBP	Year ended 31/12/02 GBP
Net gains/(losses) on investments during the year	7		5,959,601		(10,467,745)
Other losses	8		(2,942)		(22,667)
Gross income	9	137,212		79,297	
Withholding tax		(5,643)		(1,234)	
Expenses	10	(222,870)		(254,314)	
Net loss for the year			(91,301)		(176,251)
Total Return for the year			5,865,358		(10,666,663)
Equalisation	5		130,788		423,282
Net increase/(decrease) in Shareholders' Funds from investment activities			5,996,146		(10,243,381)

On behalf of the Board of Directors

**Mr Alan Jeffers
Mr Adrian Waters**

Date: 5 March 2004

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS for the year ended 31 December 2003

		GBP	Year ended 31/12/03 GBP	GBP	Year ended 31/12/02 GBP
Net assets at the start of the year			9,665,089		23,801,071
Movement due to sales and repurchase of Shares					
Amounts received on sale of Shares		558,367		271,251	
less: Amounts paid on repurchase of Shares		(1,465,043)		(4,163,852)	
			(906,676)		(3,892,601)
Net increase/(decrease) in Shareholders' Funds from investment activities			5,996,146		(10,243,381)
Net assets at the end of the year			14,754,559		9,665,089

On behalf of the Board of Directors

**Mr Alan Jeffers
Mr Adrian Waters**

Date: 5 March 2004

HERALD INVESTMENT FUND PLC

BALANCE SHEET as at 31 December 2003

	Note	31/12/03 GBP	31/12/02 GBP
Portfolio of investments	1(e)	13,839,122	9,427,623
Net current assets			
Debtors	11	56,733	8,061
Cash and bank balances	12	910,661	250,954
		967,394	259,015
Less			
Creditors	13	(51,957)	(21,549)
Net current assets		915,437	237,466
Net assets		14,754,559	9,665,089
Shareholders' Funds		14,754,559	9,665,089
Net Asset Value per Share		9.46	5.80

On behalf of the Board of Directors

Mr Alan Jeffers
Mr Adrian Waters

Date: 5 March 2004

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2003

1. Significant accounting policies

a) **Basis of accounting**

The financial statements are prepared under the historical cost convention as modified by the inclusion of securities at valuation. The financial statements are prepared in accordance with generally accepted accounting standards in Ireland, the UCITS Regulations 2003 (as amended) and, except for the treatment of taking to the Profit and Loss Account (Statement of Total Return) unrealised losses arising on the valuation of marketable investments, in accordance with the Companies Acts 1963 to 2001 (see note 2). The financial statements are prepared in GBP (Sterling).

b) **Income recognition**

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

c) **Realised gains and losses on investments**

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

d) **Unrealised gains and losses on investments**

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

e) **Valuation of securities**

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

f) **Foreign exchange**

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

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

g) **Distribution policy**

The Company will 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.

2. **Basis of presentation of financial statements**

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

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

The information required by Financial Reporting Standard no. 3 "Reporting Financial Performance" to be included in a Statement of Total Recognised Gains and Losses and a Reconciliation of Movements in Shareholders' Funds is, in the opinion of the Directors, contained in the Statement of Total Return and the Statement of Movements in Shareholders' Funds on page 20. In arriving at the results for the year, all amounts in the Statement of Total Return on page 20 relate to continuing activities.

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2003 *continued*

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

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

3. Significant agreements

Investment Manager

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

In addition, the Investment Manager is paid a performance fee annually in respect of each accounting period of the Fund at a rate of 10% per annum of the amount, if any, by which the NAV excluding performance fee at the end of the accounting period exceeds the target net asset value (110% of the opening NAV adjusted to take account of new subscriptions, repurchases or distributions) of the Fund over the relevant period. The opening NAV is the previous highest NAV as at the end of an accounting period or the NAV of the Fund as at the close of the initial offer period in the case of the first period or where this is greater than the previous highest NAV of the Fund. The opening NAV is GBP19.82 per Share. This fee is calculated and accrued at each valuation point.

Administrator

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

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

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

Custodian

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

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2003 *continued*

5. Equalisation

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

	Year ended 31/12/03 GBP	Year ended 31/12/02 GBP
Income deducted on sale of Shares	(68,275)	(48,634)
Income received on repurchase of Shares	199,063	471,916
	130,788	423,282

6. Net Asset Value per Share

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

7. Net gains/(losses) on investments during the year

The net gain/(losses) on investments during the year comprise:

	Note	Year ended 31/12/03 GBP	Year ended 31/12/02 GBP
Proceeds from sales of investments during the year		5,689,224	5,789,491
Original cost of investments sold during the year		(9,646,987)	(9,367,471)
Losses realised on investments sold during the year	1(c)	(3,957,763)	(3,577,980)
Net unrealised depreciation at the start of the year	1(d)	10,708,774	3,819,009
Net unrealised depreciation at the end of the year	1(d)	(791,410)	(10,708,774)
Net gains/(losses) on investments during the year		5,959,601	(10,467,745)

8. Other losses

Other losses comprise:

		Year ended 31/12/03 GBP	Year ended 31/12/02 GBP
Foreign exchange losses	1(f)	(2,942)	(22,667)

9. Gross income

		Year ended 31/12/03 GBP	Year ended 31/12/02 GBP
Income from investments	1(b)	130,247	44,558
Bank interest	1(b)	6,965	34,558
Fixed deposit income	1(b)	-	181
		137,212	79,297

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2003 *continued*

10. Expenses

	Note	Year ended 31/12/03 GBP	Year ended 31/12/02 GBP
Payable to the Investment Manager			
Investment management fee	3	(92,337)	(110,585)
Performance fee	3	-	-
		(92,337)	(110,585)
Payable to the Administrator			
Administration fee	3	(49,864)	(45,492)
Registration fee	3	(3,900)	(18,978)
		(53,764)	(64,470)
Payable to the Custodian			
Custody fee	3	(3,094)	(3,686)
Sub-custody fee	3	(3,650)	(4,062)
Transaction fee	3	(6,600)	(8,280)
		(13,344)	(16,028)
Other expenses			
Audit fee		(9,408)	(9,063)
Directors' remuneration		(25,500)	(21,000)
Other		(28,517)	(33,168)
		(63,425)	(63,231)
Total expenses		(222,870)	(254,314)

11. Debtors

	31/12/03 GBP	31/12/02 GBP
Accrued income	2,648	2,227
Sale of securities awaiting settlement	54,085	-
Other debtors	-	5,834
	56,733	8,061
	56,733	8,061

12. Cash and bank balances

	31/12/03 GBP	31/12/02 GBP
Cash and bank balances	910,661	250,954
	910,661	250,954

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

13. Creditors

	31/12/03 GBP	31/12/02 GBP
Amounts payable on repurchase of Shares	(7,689)	-
Accrued expenses	(44,268)	(21,549)
	(51,957)	(21,549)
	(51,957)	(21,549)

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2003 *continued*

14. Exchange rates

The following GBP exchange rates used in this report at 31 December 2003 were :

EUR	1.4209
HK\$	13.8223
MYR	6.7655
NOK	11.9611
SG\$	3.0309
TWD	60.5870
US\$	1.7804

15. Purchases and sales of investments during the year

	Year ended 31/12/03 GBP	Year ended 31/12/02 GBP
Total purchases	4,141,122	5,016,813
Total sales	5,689,224	5,789,491

16. Related party transactions

Herald Investment Management Limited, who acts as Investment Manager of the Fund, earned GBP92,337 during the year for providing this service. At the year end GBP8,910 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 Company are set out in the Portfolio of Investments on page 15 to 17. The main risks and policies relating to financial instruments are set out below.

Political and/or Regulatory risks

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

Currency risk

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

Market risk

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

HERALD INVESTMENT FUND PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2003 *continued*

18. Financial instruments *continued*

The Company has no financial liabilities other than short-term creditors as described in note 13. A substantial portion of the investments of the Company are denominated in currencies other than in GBP and are included below:

31 December 2003

Currency	Investments GBP	Other Net Assets GBP	Total GBP
EUR	43,333	-	43,333
HK\$	235,389	-	235,389
MYR	337,225	-	337,225
NOK	92,699	-	92,699
SG\$	210,512	-	210,512
TWD	106,503	4,450	110,953
US\$	7,206,497	816	7,207,313
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	8,232,158	5,266	8,237,424
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31 December 2002

Currency	Investments GBP	Other Net Assets GBP	Total GBP
EUR	200,430	11	200,441
HK\$	186,633	-	186,633
MYR	362,887	-	362,887
NOK	53,797	-	53,797
SG\$	74,667	-	74,667
TWD	149,528	3,126	152,654
US\$	5,843,065	9,159	5,852,224
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	6,871,007	12,296	6,883,303
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19. Subscriber Shares

As at 31 December 2003, 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 5 March 2004.

HERALD INVESTMENT FUND PLC

Other Information

DIRECTORS

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

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INDEPENDENT AUDITORS

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

COMPANY SECRETARY

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