

# HERALD INVESTMENT FUND PLC

## - The Herald Worldwide Fund

### INTERIM UNAUDITED REPORT for the six months ended 30 June 2003

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# HERALD INVESTMENT FUND PLC

## GENERAL INFORMATION

The following information is derived from the Prospectus.

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

The Articles of Association provide for separate funds, each representing interests in defined portfolios of assets and liabilities which may be established from time to time with prior approval of the 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.

# HERALD INVESTMENT FUND PLC

## GENERAL INFORMATION *continued*

### PRICES

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

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

### DEALING

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

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

Applications for Shares and repurchase orders must be received by the Administrator by 5:00pm (Irish time) on the business day preceding any dealing day. Applications received after 5:00pm (Irish time) will be dealt 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 pay a dividend 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 PERIOD

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.

# HERALD INVESTMENT FUND PLC

## INVESTMENT MANAGER'S REPORT for the six months ended 30 June 2003

The defined remit for the Fund is to invest globally in information technology, communications and multi-media. The Investment Manager believes that this area of the economy offers growth greater than the world economy as a whole, and therefore offers attractive investment opportunities. In addition the Investment Manager offers focused specialist management. The Fund was launched in April 1998 with an initial net asset value of GBP13.0m. At 30 June 2003, the net asset value was GBP12.2m.

### Capital performance for the 6 months to 30 June 2003

Herald Worldwide Fund NAV 31.38%

#### US

|                                   |        |
|-----------------------------------|--------|
| S&P 500                           | 8.06%  |
| Russell 2000 Small Cap            | 14.18% |
| NASDAQ Composite                  | 18.54% |
| Russell 1000 Large Cap Technology | 14.23% |
| Russell 2000 Small Cap Technology | 22.90% |

#### UK

|                             |        |
|-----------------------------|--------|
| FTSE 100                    | 2.30%  |
| FTSE Small Cap              | 15.47% |
| FTSE techMARK 100           | 19.44% |
| FTSE Information Technology | 21.34% |

#### Europe

|                         |        |
|-------------------------|--------|
| FTSE EUROTOP 300        | 7.41%  |
| DAX                     | 20.47% |
| Neuer Markt             | 37.28% |
| CAC 40                  | 8.92%  |
| Nouveau Marché          | 17.66% |
| NASDAQ Europe All Share | 39.69% |

#### Asia Pacific

|            |       |
|------------|-------|
| Nikkei 225 | 2.09% |
| Hang Seng  | 0.24% |

All returns £STG adjusted.

Source: Herald Investment Management Limited, Bloomberg.

The speculative bubble in the stock market, which focused on the Telecommunications Media and Technology (TMT) sectors, in which the Fund invests, peaked in March 2000, has dramatically unwound. This led to a poor absolute performance for this Fund, albeit the indices declined even further. The Investment Manager believed that the pessimism that followed was overdone by September/October last year. The subsequent autumn rally was not sustained in the first quarter when sentiment about the Gulf kept buyers on the sidelines. In spite of this, reported earnings were in general up to expectations, and upgrades have been outnumbering downgrades all year. With this background, when the outcome of the Gulf conflict emerged without too many consequential problems, the market was ripe for a strong rally. The TMT sectors have led that rally, with smaller companies outpacing larger ones. The portfolio was positioned to exploit this, and the assets/share rose 31.38% in the six months to 30 June 2003. It is pleasing to report that we have outperformed all the most relevant indices.

### Performance by geography

|        |        |
|--------|--------|
| US     | +23.9% |
| UK     | +69.3% |
| Europe | +11.8% |
| Asia   | +9.5%  |

The US market is more volatile than the UK, but equally when the market rerates it does so simultaneously across the board. As confidence has returned the recovery in the portfolio has been broadly based. Whilst the UK portfolio performance has also been broadly based it particularly benefited from holdings in Gresham Computing and Amstrad, which happen to be the two

## HERALD INVESTMENT FUND PLC

### INVESTMENT MANAGER'S REPORT for the six months ended 30 June 2003 *continued*

best performing stocks in Techmark in the first half of 2003. Europe and Asia have under-performed. The holdings in Singapore and Taiwan were adversely affected by sentiment during the SARS scare, but these stocks have rallied since the end of June, albeit they are a small proportion of the overall portfolio.

Unfortunately it has not been possible to replace the provider of the ARIN, who withdrew from the market, so the Fund still has no ability to go short. It is still the aim to find a replacement.

#### **Market Background**

Earnings expectations declined sharply as corporate capital expenditure stalled, leaving overcapacity in many industries. Cost cutting has been aggressive, and more sound business values, such as cash flow have emerged. Generally expectations have been set at a realistic level, and forward guidance is edging up rather than down. There is great scepticism in the UK about the valuation of the US market, and the structural flaws in the US economy- inter alia excessive consumer borrowing, and an adverse trade deficit. Others will be more qualified to judge, but at the micro level the technology companies in the US have an astonishing dominance and, unlike the Far East, the intellectual leadership often provides pricing power. In addition, they have a regulatory and legal framework providing unparalleled investor protection and operational flexibility. The perspective of technology focussed fund managers is that you bet against the US at your peril.

The major markets of PCs and mobile phones have passed the growth phase, and have become relatively mature markets. It is difficult to see the consumer driving growth either. It would, however, be surprising if there was not a recovery in corporate capital expenditure, now that the US economy is stabilising. Europe remains a worry.

#### **Outlook**

The performance to date reflects a technical bounce from oversold positions. It would be healthy for the market to consolidate until earnings progression is more evident. There is however much liquidity, with such low interest rates and the money supply growing in the US. In addition there is an absence of growth in a competitive low inflationary world in old economy stocks, so there is a chance that the market rallies further than fundamentals would imply.

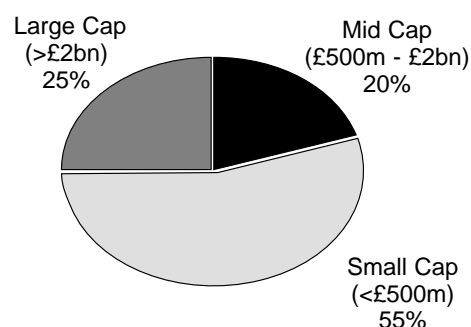
# HERALD INVESTMENT FUND PLC

## INVESTMENT MANAGER'S REPORT for the six months ended 30 June 2003 *continued*

### Portfolio Weightings

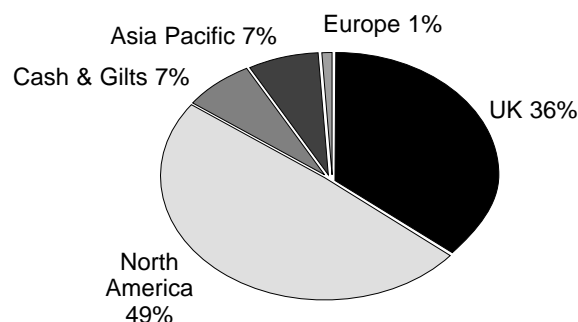
#### BREAKDOWN BY MARKET CAP 30 JUNE 2003

|           | 31/12/02 | 30/6/03 |
|-----------|----------|---------|
| Large Cap | 26%      | 25%     |
| Mid Cap   | 25%      | 20%     |
| Small Cap | 49%      | 55%     |



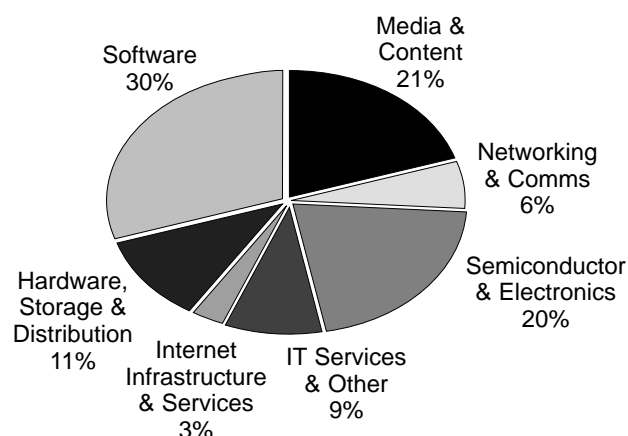
#### GEOGRAPHIC BREAKDOWN 30 JUNE 2003

|               | 31/12/02 | 30/6/03 |
|---------------|----------|---------|
| North America | 58%      | 49%     |
| UK            | 26%      | 36%     |
| Europe        | 5%       | 1%      |
| Asia Pacific  | 9%       | 7%      |
| Cash & Gilts  | 2%       | 7%      |
| ARIN          | 0%       | 0%      |



#### SECTOR BREAKDOWN 30 JUNE 2003

|                                    | 31/12/02 | 30/6/03 |
|------------------------------------|----------|---------|
| Semiconductor & Electronics        | 14%      | 20%     |
| Networking & Communications        | 5%       | 6%      |
| Media & Content                    | 26%      | 21%     |
| IT Services & Other                | 18%      | 9%      |
| Internet Infrastructure & Services | 6%       | 3%      |
| Hardware, Storage & Distribution   | 13%      | 11%     |
| Software                           | 18%      | 30%     |



## HERALD INVESTMENT FUND PLC

### PORTFOLIO OF INVESTMENTS as at 30 June 2003

| NOMINAL                                       | SECURITY   | CLASSIFICATION | VALUE GBP | FUND% |
|---|--|----------------|-----------|-------|
| <b>AUSTRIA 0.36% (2002: 0.66%)</b>            |  |                |           |       |
| <i>COMMERCIAL SERVICES AND SUPPLIES</i>       |  |                |           |       |
| 50,000  | Plaut AG   | (a)            | 43,493    | 0.36  |
| <b>CANADA 2.69% (2002: 2.28%)</b>             |  |                |           |       |
| <i>SOFTWARE</i>                               |  |                |           |       |
| 20,000  | Cognos Inc   | (a)            | 327,243   | 2.69  |
| <b>HONG KONG 0.94% (2002: 1.19%)</b>          |  |                |           |       |
| <i>DIVERSIFIED TELECOMMUNICATION SERVICES</i> |  |                |           |       |
| 114,000                                       | Asia Satellite Telecommunications Holdings Limited |                | 113,840   | 0.94  |
| <b>IRELAND 0.26% (2002: 0.65%)</b>            |  |                |           |       |
| <i>INTERNET SOFTWARE AND SERVICES</i>         |  |                |           |       |
| 24,000  | Iona Technologies plc                              | (a)            | 32,143    | 0.26  |
| <b>ISRAEL NIL (2002: 1.25%)</b>               |  |                |           |       |
| <b>ITALY NIL (2002: 2.41%)</b>                |  |                |           |       |
| <b>JAPAN NIL (2002: 2.05%)</b>                |  |                |           |       |
| <b>MALAYSIA 3.01% (2002: 3.08%)</b>           |  |                |           |       |
| <i>MEDIA</i>                                  |  |                |           |       |
| 370,000                                       | Star Publications (Malaysia) Berhad                |                | 365,837   | 3.01  |
| <b>NORWAY 0.56% (2002: 0.44%)</b>             |  |                |           |       |
| <i>COMMUNICATIONS EQUIPMENT</i>               |  |                |           |       |
| 80,000  | Nera ASA   |                | 67,834    | 0.56  |
| <b>SINGAPORE 1.46% (2002: 0.61%)</b>          |  |                |           |       |
| <i>ELECTRONIC EQUIPMENT AND INSTRUMENTS</i>   |  |                |           |       |
| 32,000  | Venture Corporation Limited                        |                | 177,291   | 1.46  |
| <b>TAIWAN 1.59% (2002: 3.03%)</b>             |  |                |           |       |
| <i>SEMICONDUCTOR EQUIPMENT AND PRODUCTS</i>   |  |                |           |       |
| 93,000  | Realtek Semiconductor Corp                         |                | 114,801   | 0.94  |
| 34,500  | United Micro Electronics Corp                      |                | 78,402    | 0.65  |

# HERALD INVESTMENT FUND PLC

## PORTFOLIO OF INVESTMENTS as at 30 June 2003 *continued*

| NOMINAL                                     | SECURITY                              | CLASSIFICATION | VALUE GBP | FUND% |
|---|---------------------------------------|----------------|-----------|-------|
| <b>UNITED KINGDOM 36.14% (2002: 25.73%)</b> |                                       |                |           |       |
| <b>WARRANTS 4.79% (2002: 1.67%)</b>         |                                       |                |           |       |
| <i>INVESTMENT COMPANIES</i>                 |                                       |                |           |       |
| 245,000                                     | Herald Investment Trust plc           |                | 581,875   | 4.79  |
| <b>EQUITIES 31.35% (2002: 24.06%)</b>       |                                       |                |           |       |
| <i>ELECTRONIC AND ELECTRICAL EQUIPMENT</i>  |                                       |                |           |       |
| 30,000                                      | Acal plc                              |                | 171,000   | 1.41  |
| <i>HOUSEHOLD GOODS AND TEXTILES</i>         |                                       |                |           |       |
| 900,000                                     | Amstrad plc                           |                | 760,500   | 6.26  |
| <i>IT HARDWARE</i>                          |                                       |                |           |       |
| 200,000                                     | Plasmon plc                           |                | 260,000   | 2.14  |
| <i>MEDIA AND PHOTOGRAPHY</i>                |                                       |                |           |       |
| 380,000                                     | Aegis Group plc                       |                | 301,150   | 2.48  |
| 150,000                                     | Taylor Nelson Sofres plc              |                | 252,000   | 2.07  |
| <i>SOFTWARE AND COMPUTER SERVICES</i>       |                                       |                |           |       |
| 400,000                                     | Anite Group plc                       |                | 133,000   | 1.09  |
| 375,000                                     | Focus Solutions Group plc             |                | 91,875    | 0.76  |
| 210,000                                     | Gresham Computing plc                 |                | 651,000   | 5.36  |
| 32,000                                      | Misys plc                             |                | 82,240    | 0.68  |
| 550,000                                     | Patsystems plc                        |                | 52,250    | 0.43  |
| 58,000                                      | SurfControl plc                       |                | 369,750   | 3.04  |
| 1,384,332                                   | The Innovation Group plc              |                | 183,424   | 1.51  |
| <i>SUPPORT SERVICES</i>                     |                                       |                |           |       |
| 800,000                                     | Thomson Intermedia plc                |                | 188,000   | 1.55  |
| <i>TELECOMMUNICATIONS SERVICES</i>          |                                       |                |           |       |
| 500,000                                     | Colt Telecom Group plc                |                | 312,500   | 2.57  |
| <b>UNITED STATES 46.17% (2002: 52.32%)</b>  |                                       |                |           |       |
| <i>COMMUNICATIONS EQUIPMENT</i>             |                                       |                |           |       |
| 90,000                                      | MRV Communications Inc                | (a)            | 109,626   | 0.90  |
| <i>COMPUTERS AND PERIPHERALS</i>            |                                       |                |           |       |
| 60,000                                      | Advanced Digital Information Corp     | (a)            | 363,240   | 2.99  |
| 22,000                                      | EMC Corporation                       |                | 139,587   | 1.15  |
| 30,000                                      | M-Systems Flash Disk Pioneers Limited | (a)            | 202,345   | 1.66  |
| <i>ELECTRONIC EQUIPMENT AND INSTRUMENTS</i> |                                       |                |           |       |
| 8,500                                       | Arrow Electronics Inc                 |                | 78,502    | 0.65  |
| 10,000                                      | Black Box Corp                        | (a)            | 219,374   | 1.80  |
| 10,000                                      | Jabil Circuit Inc                     |                | 133,927   | 1.10  |
| <i>INTERNET SOFTWARE AND SERVICES</i>       |                                       |                |           |       |
| 50,000                                      | Onesource Information Service Inc     | (a)            | 226,040   | 1.86  |
| 38,000                                      | Verisign Inc                          | (a)            | 318,480   | 2.62  |
| <i>IT CONSULTING AND SERVICES</i>           |                                       |                |           |       |
| 12,000                                      | Electronic Data Systems Corp          |                | 155,986   | 1.28  |
| 8,000                                       | Manhattan Associates Inc              | (a)            | 125,904   | 1.04  |



# HERALD INVESTMENT FUND PLC

## PORTFOLIO OF INVESTMENTS as at 30 June 2003 *continued*

| NOMINAL   | SECURITY               | CLASSIFICATION | VALUE GBP         | FUND%         |
|---|------------------------|----------------|-------------------|---------------|
| <b>UNITED STATES 46.17% (2002: 52.32%) <i>continued</i></b> |                        |                |                   |               |
| <i>MEDIA</i>  |                        |                |                   |               |
| 21,000  | Comcast Corp           | (a)            | 366,894           | 3.02          |
| 10,000  | Getty Images Inc       | (a)            | 250,280           | 2.06          |
| 15,000  | Viacom Inc             |                | 396,873           | 3.27          |
| <i>SEMICONDUCTOR EQUIPMENT AND PRODUCTS</i>                 |                        |                |                   |               |
| 21,500  | Analog Devices Inc     |                | 453,674           | 3.73          |
| 32,500  | Asyst Technologies Inc | (a)            | 131,761           | 1.08          |
| 18,000  | Credence Systems Corp  | (a)            | 92,392            | 0.76          |
| 12,000  | Xilinx Inc             | (a)            | 184,056           | 1.51          |
| <i>SOFTWARE</i>   |                        |                |                   |               |
| 268,000   | Chordiant Software Inc | (a)            | 302,082           | 2.49          |
| 20,000  | Citrix Systems Inc     | (a)            | 246,765           | 2.03          |
| 21,000  | Microsoft Corp         | (a)            | 325,916           | 2.68          |
| 20,000  | NetScout Systems Inc   | (a)            | 65,085            | 0.54          |
| 25,000  | RSA Security Inc       | (a)            | 162,864           | 1.34          |
| 15,000  | Serena Software Inc    | (a)            | 189,801           | 1.56          |
| 26,750  | THQ Inc                | (a)            | 291,792           | 2.40          |
| 35,000  | Wind River System Inc  | (a)            | 80,811            | 0.65          |
| <b>TOTAL INVESTMENTS</b>                                    |                        |                | <b>11,325,505</b> | <b>93.18</b>  |
| Current assets (2002: 4.75%)                                |                        |                | 882,671           | 7.26          |
| <b>Total assets</b>   |                        |                | <b>12,208,176</b> | <b>100.44</b> |
| Current liabilities (2002: (0.45%))                         |                        |                | (54,145)          | (0.44)        |
| <b>NET ASSETS</b>   |                        |                | <b>12,154,031</b> | <b>100.00</b> |

|                           | <b>30 June 2003</b> | <b>31 December 2002</b> | <b>30 June 2002</b> |
|---------------------------|---------------------|-------------------------|---------------------|
| Net Asset Value           | GBP12,154,031       | GBP9,665,089            | GBP12,771,827       |
| Number of Shares in issue | 1,594,069           | 1,665,335               | 1,761,141           |
| Net Asset Value per Share | GBP7.62             | GBP5.80                 | GBP7.25             |

### Comparative percentages

The 2002 comparative percentages are in respect of 30 June 2002.

### Classification

(a) Transferable Securities dealt in on another regulated market.

All other Transferable Securities are admitted to an official stock exchange listing.

### Analysis of Total Assets

|   | <b>% of Total Assets</b> |
|---|--------------------------|
| Transferable Securities admitted to official stock exchange listing | 54.61                    |
| Transferable Securities as described in classification (a) above    | 38.16                    |
| Other assets (cash/debtors)   | 7.23                     |
|   | <u>100.00</u>            |

## HERALD INVESTMENT FUND PLC

### PORTFOLIO CHANGES since 1 January 2003

| <b>MAJOR PURCHASES</b>                | <b>GBP VALUE</b> |
|---------------------------------------|------------------|
| Colt Telecom Group plc                | 365,270          |
| Amstrad plc                           | 317,524          |
| Plasmon plc                           | 207,652          |
| M-Systems Flash Disk Pioneers Limited | 200,239          |
| Gresham Computing plc                 | 189,509          |
| Taylor Nelson Sofres plc              | 140,324          |
| Bea Systems Inc                       | 131,106          |
| Zoran Corp                            | 125,742          |
| Anite Group plc                       | 119,592          |
| Venture Corporation Limited           | 94,374           |
| MRV Communications Inc                | 56,628           |
| The Innovation Group plc              | 50,979           |
| Serena Software Inc                   | 44,311           |

| <b>MAJOR SALES</b>                        | <b>GBP VALUE</b> |
|---|------------------|
| Azlan Group plc                           | 425,529          |
| Multex.Com Inc                            | 407,839          |
| 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          |
| AOL Time Warner Inc                       | 163,030          |
| Amstrad plc                               | 157,026          |
| Taylor Nelson Sofres plc                  | 156,528          |
| Reply SpA                                 | 133,788          |
| Keynote Systems Inc                       | 115,589          |
| Flextronics International Limited         | 114,023          |
| Minorplanet Systems plc                   | 110,350          |
| Onesource Information Service Inc         | 100,353          |
| SCMP Group Limited                        | 93,089           |
| Chordiant Software Inc                    | 92,894           |
| Aegis Group plc                           | 88,787           |
| Gresham Computing plc                     | 72,987           |
| The Innovation Group plc                  | 50,472           |
| Patsystems plc                            | 41,250           |

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

**HERALD INVESTMENT FUND PLC****BALANCE SHEET as at 30 June 2003**

|                           | <b>Note</b> | <b>30/06/03<br/>GBP</b> | <b>31/12/02<br/>GBP</b> | <b>30/06/02<br/>GBP</b> |
|---------------------------|-------------|-------------------------|-------------------------|-------------------------|
| Portfolio of Investments  | 1 (e)       | 11,325,505              | 9,427,623               | 12,222,032              |
| Net current assets        |             |                         |                         |                         |
| Debtors                   | 6           | 11,018                  | 8,061                   | 20,144                  |
| Cash and bank balances    | 7           | 871,653                 | 250,954                 | 586,230                 |
|                           |             | <u>882,671</u>          | <u>259,015</u>          | <u>606,374</u>          |
| Less                      |             |                         |                         |                         |
| Creditors                 | 8           | <u>(54,145)</u>         | <u>(21,549)</u>         | <u>(56,579)</u>         |
| Net current assets        |             | <u>828,526</u>          | <u>237,466</u>          | <u>549,795</u>          |
| Net assets                |             | <u>12,154,031</u>       | <u>9,665,089</u>        | <u>12,771,827</u>       |
| Shareholders' funds       |             | <u>12,154,031</u>       | <u>9,665,089</u>        | <u>12,771,827</u>       |
| Net Asset Value per Share |             | 7.62                    | 5.80                    | 7.25                    |

## HERALD INVESTMENT FUND PLC

### NOTES TO THE INTERIM UNAUDITED REPORT for the six months ended 30 June 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 (1989) (as amended) and except for the treatment of taking to the Profit and Loss Account (Statement of Total Return) unrealised losses arising on the valuation of marketable investments securities, in accordance with the Companies Acts 1963 to 2001. The financial statements are prepared in GBP (Sterling).

##### b) Income recognition

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

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

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

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

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

##### e) Valuation of securities

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

##### f) Foreign exchange

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

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

##### g) Distribution policy

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

#### 2. 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 INTERIM UNAUDITED REPORT for the six months ended 30 June 2003 *continued*

#### 3. Equalisation

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

#### 4. 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.

#### 5. Dividends

The distributions take account of income received on the sale of Shares and income deducted on the repurchase of Shares (see Note 3).

#### 6. Debtors

|                | 30/06/03<br>GBP | 31/12/02<br>GBP | 30/06/02<br>GBP |
|----------------|-----------------|-----------------|-----------------|
| Accrued income | 5,507           | 2,227           | 7,845           |
| Other debtors  | 5,511           | 5,834           | 12,299          |
|                | 11,018          | 8,061           | 20,144          |

#### 7. Cash and bank balances

|                        | 30/06/03<br>GBP | 31/12/02<br>GBP | 30/06/02<br>GBP |
|------------------------|-----------------|-----------------|-----------------|
| Cash and bank balances | 871,653         | 250,954         | 586,230         |
|                        | 871,653         | 250,954         | 586,230         |

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

#### 8. Creditors

|                        | 30/06/03<br>GBP | 31/12/02<br>GBP | 30/06/02<br>GBP |
|------------------------|-----------------|-----------------|-----------------|
| Capital shares payable | (22,552)        | -               | (13,980)        |
| Accrued expenses       | (31,593)        | (21,549)        | (42,599)        |
|                        | (54,145)        | (21,549)        | (56,579)        |

#### 9. Exchange rate

The following GBP exchange rates as at 30 June 2003 have been used in this report:

|      |         |
|------|---------|
| EUR  | 1.4370  |
| HKD  | 12.8681 |
| MYR  | 6.2706  |
| NOK  | 11.9115 |
| SGD  | 2.9060  |
| TWD  | 57.1117 |
| US\$ | 1.6502  |

## HERALD INVESTMENT FUND PLC

### NOTES TO THE INTERIM UNAUDITED REPORT for the six months ended 30 June 2003 *continued*

#### **10. Soft commission arrangements**

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

#### **11. Adjustable rate index notes (“ARINs”)**

The Fund may invest up to 10% of Net Asset Value in ARINs. An ARIN is a form of promissory note issued by a brokerage firm or other counterparty which provides that the amount of principal will vary inversely to changes in the value of a specified security or basket of securities. The effect of such an instrument is equivalent to a short sale of a specified security or basket of securities, except that the potential loss to the Fund is limited to the amount invested in the ARIN. At 30 June 2003 the Fund did not hold any ARINs as this product was discontinued by the brokerage firm.

#### **12. Subscriber Shares**

As at 30 June 2003, the Fund has issued 7 subscriber shares. The holders of these shares are not entitled to dividends or any surplus of assets over liabilities upon the winding-up of the Fund. They are thus described in the interim unaudited report by way of this note only.

#### **13. Approval of interim unaudited report**

The interim unaudited report was approved for issuance by the Board of Directors on 8 August 2003.

# HERALD INVESTMENT FUND PLC

## OTHER INFORMATION

### INVESTMENT MANAGER

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

### ADMINISTRATOR AND REGISTRAR

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

### CUSTODIAN

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

### AUDITORS

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

### COMPANY SECRETARY

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

### LEGAL ADVISERS

#### In Ireland

Arthur Cox  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

#### In England

Macfarlanes  
10 Norwich Street  
London EC4A 1BD  
England

### SPONSORING BROKER

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

### DIRECTORS

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

### REGISTERED OFFICE

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







**HERALD INVESTMENT FUND plc**  
**– The Herald Worldwide Fund**

**INTERIM UNAUDITED REPORT**

**for the six months ended 30 June 2003**