

# HERALD INVESTMENT FUND PLC

## - The Herald Worldwide Fund

### ANNUAL REPORT for year ended 31 December 2004

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# HERALD INVESTMENT FUND PLC

## GENERAL INFORMATION

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

Herald Investment Fund plc, from hereon in to be known as "the Company", was incorporated on 12 February 1998 as an open ended, variable capital investment company under the laws of the Republic of Ireland and is listed on the Irish Stock Exchange. The Company is organised in the form of an umbrella fund under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 ("UCITS Regulations, 2003").

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

### INVESTMENT OBJECTIVE

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

### MEETING INVESTMENT OBJECTIVE

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

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

### RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

#### Political and/or Regulatory risks

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

#### Currency risk

The 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 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.

# 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**

There have been no significant events during the year to report.

# HERALD INVESTMENT FUND PLC

## DIRECTORS' REPORT for the year ended 31 December 2004

The Directors present herewith their report together with the audited financial statements for the year ended 31 December 2004.

### Results and Business Activities

The results of operations for the year are set out in the Statement of Total Return on page 18. Regarding the business activities of the Fund during 2004 please refer to the Investment Manager's Report on pages 10 to 13.

### Dividends

No dividend is proposed for the year ended 31 December 2004.

### Directors

The Directors of the Company are as follows:

#### Alan Jeffers (Irish)

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

#### William Backhouse (British)

Mr Backhouse is a chartered accountant. He joined the corporate finance department of Barings in 1970 and from 1984 until he retired in 1993, he was a director of Baring Asset Management. He is a director of JP Morgan Fleming Worldwide Income Investment Trust plc and of ING Real Estate Investment Management Group (UK) Limited. He is Chairman of Thames River Multi Hedge PCC Limited, the Investors' Committee of Lionbrook Property Partnership and the Advisory Committee of ING UK Residential Property Fund. Mr Backhouse is a shareholder of Herald Investment Management Limited.

#### David Boyle (British)

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

#### Adrian Waters (Irish)

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

### Directors' and Secretary's Interests in Shares and Contracts

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

	2004	2003
William Backhouse and connected persons	12,597.47	12,597.47 Shares
David Boyle and connected persons	12,181.21	12,182.21 Shares

None of the other Directors had interests in the Shares of the Company at 31 December 2004 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 2004** *continued*

### **Significant events since the year end**

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

### **Books of account**

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

### **Independent Auditors**

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

### **Distributor Status**

In respect of the year ended 31 December 2003, 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 2004.

### **On behalf of the Board of Directors**

**Alan Jeffers**

**Adrian Waters**

**Date: 23 February 2005**

# 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 2003 and the UCITS Regulations, 2003. They are also responsible for safeguarding the assets of the Company and in fulfilment of this responsibility, they have entrusted the assets of the Company to the Custodian for safekeeping in accordance with the Memorandum and Articles of Association of the Company. The Directors are responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**On behalf of the Board of Directors**

**Alan Jeffers**

**Adrian Waters**

**Date: 23 February 2005**

# HERALD INVESTMENT FUND PLC

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

We have audited the financial statements on pages 14 to 15 and 18 to 25 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 20.

### **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 2003 and the European Communities (Undertakings for Collective Investments in Transferable Securities) Regulations, 2003. 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 audit 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 2004, and its results for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003.

We have obtained all the information and explanations we consider necessary for the 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 of account.

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**  
**Dublin 2**

**23 February 2005**



# 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 2004, in our capacity as Custodian to the Company.

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

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

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

**Date: 23 February 2005**

# HERALD INVESTMENT FUND PLC

## INVESTMENT MANAGER'S REPORT for the year ended 31 December 2004

The defined remit for the fund is to invest globally in information technology, communications and multi-media. The Manager believes that this area of the economy offers growth greater than the world economy as a whole, and therefore presents attractive investment opportunities. In addition the Manager offers focused specialist management. The Fund was launched in April 1998 with an initial net asset value of GBP13.0m. At the end of the period, the net asset value was GBP11.3m.

### Capital performance for the 12 months to 31 December 2004

Herald Worldwide Fund NAV +9.0%

#### US

Russell 1000 Large Cap Technology - 5.6%

Russell 2000 Small Cap Technology -10.9%

NASDAQ Composite +1.1%

S&P 500 +1.5%

Russell 2000 Small Cap +8.9%

#### UK

FTSE techMARK 100 +17.9%

FTSE Information Technology -8.4%

FTSE 100 +7.5%

FTSE Small Cap +11.4%

#### Europe

Neuer Markt +0.2%

Nouveau Marché +3.4%

FTSE EUROTOP 300 +9.2%

DAX +7.9%

CAC 40 +7.9%

#### Asia Pacific

JASDAQ +28.4%

Nikkei 225 +3.3%

Hang Seng +5.2%

All returns £STG adjusted.

Source: Herald Investment Management Limited, Bloomberg.

### Introduction

Overall the fund has returned 9.0% in GBP terms in 2004. This reflects a background of strong trading in the portfolio's investments. However, the growth in share prices did not on average match the average growth in earnings per share, which was 68.8%, or 18.1% stripping out loss making companies. This was in part because share prices grew strongly in 2003, when Herald Worldwide grew by 63.1%/share, anticipating a strong year of profits in 2004, in part because rising interest rates do not provide a sympathetic background to share prices, and in part because the reporting currency, GBP, was relatively strong particularly with respect to the USD. The trading background generally remains reasonable so prospects for continued profits growth are good, and we aim to own stocks which are growing faster than the economy as a whole as has been the case in 2004.

The p/e of the overall portfolio is 32.7x on expected 2004 earnings, falling to 22.4x forecast 2005 earnings. This assumes earnings growth of 46% in 2005. This sounds high but compares to earnings growth of 68.8% achieved in 2004. Stripping out the companies which were unprofitable in 2003 reduces the growth to 18.1% in 2004 and 18.3%, based on consensus forecasts in 2005. (Consensus forecasts are sourced from JCF Group)

### Performance by geography

*Compounded monthly*

US 2.6%

UK 22.4%

Europe -7.4%

Pacific 15.8%

# HERALD INVESTMENT FUND PLC

## INVESTMENT MANAGER'S REPORT for the year ended 31 December 2004 *continued*

### United States

The US portfolio return has been c2.6% in GBP, but c10% in USD terms. This compares favourably not only with the NASDAQ return, but also with the Russell Technology Indices which fell in GBP. Stock market returns have been disappointing in spite of a strong trading environment because valuations in the US were discounting considerable growth, and interest rates have been rising leading to concerns about the sustainability of growth in the future. It is noticeable that this year large companies have outperformed small companies, with R1Tech falling 5.6% in GBP versus R2Tech falling 10.9% in GBP. Apple was the strongest contributor in the portfolio, and was also the strongest performer in R1Tech rising by 201% in US\$, and now represents the largest US holding. The success of the iPod has led to this sparkling performance. Verisign has also contributed helpfully rising by 105%.

The p/e of the US portfolio is c33.2x for 2004 falling to 26.8x in 2005. This assumes overall earnings growth of 23.9% in the portfolio (based on consensus forecasts) in 2005, which sounds high, but growth was even higher in 2004 at 109%. Stripping out companies which were loss making in 2003 earnings growth was 22.8% in 2004, and is expected to be 24.5% in 2005, and 80% in companies that have only just become profitable.

The semiconductor sector proved particularly disappointing as the strong cyclical recovery stalled in July. October was a horrible month for semi-conductor demand, but a flattening in November and December lends optimism to this being a short term correction. The Bloomberg semiconductor index was down 26.4% and our semiconductor holdings proved a drag on the portfolio. The media indices also declined while software was flat. The other drag on US equities this year has been the costs of implementing Sarbanes-Oxley compliance. This has proved particularly expensive for smaller companies, with extra costs generally cUSD1m, per company.

US growth continued above 3% in Q4 2004 as it has throughout 2004, and economists continue to expect growth above 3% this year. The most sympathetic environment for share prices might be a slight slowing of growth expectations, which will slow the anticipated interest rate rises. Nevertheless, if consensus expectations are to be believed then it provides an environment for further strong profits growth. Furthermore, as in the UK, the consumer is leveraged and fiscal deficits are growing, but corporate balance sheets and cash flow are very strong. Management focused on top-line growth around the bubble, then focused on cost control. It seems probable that investment is needed for further cost benefits, and capital expenditure growth is forecast to reflect this. As ever in this sector the key is stock selection. A hazard in the technology arena is the price deflation, and finding the companies that still have pricing power and emerging products should continue to be rewarding.

### United Kingdom

The UK portfolio grew by 22.4%. In contrast the Techmark 100 Index grew by 17.9%, but the returns were better in biotechnology and pharmaceuticals- sectors in which Herald does not invest. The FTSE-IT was the worst performing sector declining 5.2%. The p/e of the UK portfolio is 29.1x on expected earnings for 2004 falling to 16.9x consensus earnings in 2005. Earnings growth in the portfolio has been 47.6% in 2004, and is forecast to be higher in 2005.

An exceptional performance has been achieved in Thomson Intermedia which grew from 33.5p at 31/12/03 to 169.5p at the year end. Having performed outstandingly in 2003 Amstrad has also contributed positively in 2004.

There are few companies in the UK which match the quality of so many companies in the US. On the other hand UK investors, having briefly plunged into the sector in the millennium bubble with enthusiasm, have retreated en masse. show scepticism about future growth prospects and thus continue to provide an attractive opportunity.

### Europe and Far East

The European portfolio was down a little but is a very small proportion of the fund as a whole, while the Far East portfolio is also small but grew 15.8%. Valuations in the Far East in p/e terms are lower than the UK, and much lower than the US. Much of the Far East sector is price competitive subcontract manufacturing, which should not command a high p/e. There is leadership technology in Korea. Whilst the excessive regulation in the US is an issue, the absence of regulation in Korea is an even bigger one.

### Market Background

The **semiconductor** sector has been a problem worldwide, but as described above demand seems to be stabilising. The sectors that are continuing to show strong growth include **broadband internet access** in the home leading to strong growth in internet usage, and adding to high street demand pressures. BT now has c3m home users. Associated with this is the growth in home networking including wireless.

## HERALD INVESTMENT FUND PLC

### INVESTMENT MANAGER'S REPORT for the year ended 31 December 2004 *continued*

The anticipated convergence of **consumer electronics** and **computers** is continuing apace. The success of the iPod is one aspect of this. Sony is putting Wifi in a TV. There is an argument about agreeing a standard for the next generation Wifi which will follow 802.11a,b and g, i.e.802.11n, but it will emerge soon because greater capacity is needed for wireless telephone PBXs in the office, and to transmit high definition television through the home wirelessly. Screens get larger and resolution rises.

Meanwhile **telephony** is migrating from circuit switch to packet switch i.e.VoIP or VoBB (voice over internet protocol or voice over broadband). Corporate capital expenditure is reasonably firm, but buyers have got more professional, following some inept expenditure in the bubble so pricing is an issue.

**Mobile phone** volumes have continued to grow to 664m in 2004 up c29% on 2003 (IDC). However, within that, phones are including more features and like fixed broadband and the 3 market is happening, albeit slower than the initial hype suggested. This technology was launched in Korea and Japan, and has now been launched in Europe with Vodafone and Orange following 3. Advertising growth has been reasonable in 2004 with growth of c6%, and growth is higher than forecast earlier in the year, and should continue to grow at c5% in 2005 (source Carat, a subsidiary of Aegis).

The discussion in New York on a recent visit was about escalating house prices, and their sustainability. In London the talk is of unsold houses. The UK seems to have much more expensive valuations in an absolute sense and relative to earnings which poses a bigger threat, but while employment remains full an immediate collapse seems unlikely.

#### **Outlook**

2004 has been solid in that companies across the portfolio have generally delivered cash generative growth. 2005 has got off to a sound start in trading terms. Share prices will reflect this in the absence of unforeseen shocks.

# HERALD INVESTMENT FUND PLC

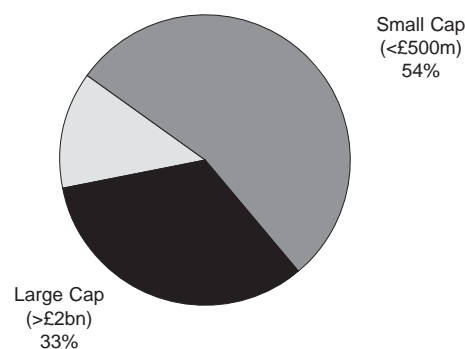
## INVESTMENT MANAGER'S REPORT for the year ended 31 December 2004 *continued*

### Portfolio Weightings

#### BREAKDOWN BY MARKET CAP 31 DECEMBER 2004

	31/12/03	31/12/04
Large Cap	20%	33%
Mid Cap	21%	13%
Small Cap	59%	54%

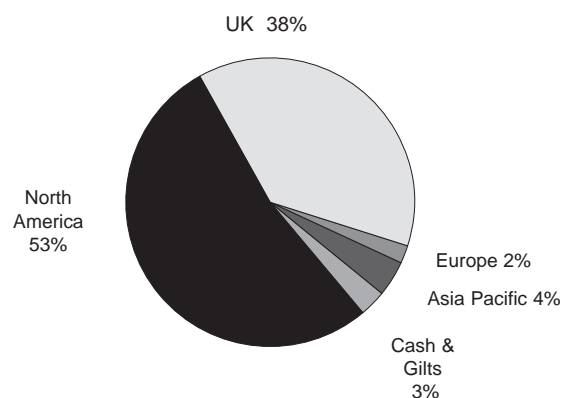
Source: Herald Investment Management Limited.



#### GEOGRAPHIC BREAKDOWN 31 DECEMBER 2004

	31/12/03	31/12/04
North America	47%	53%
UK	38%	38%
Europe	2%	2%
Asia Pacific	7%	4%
Cash & Gilts	6%	3%
ARIN	0%	0%

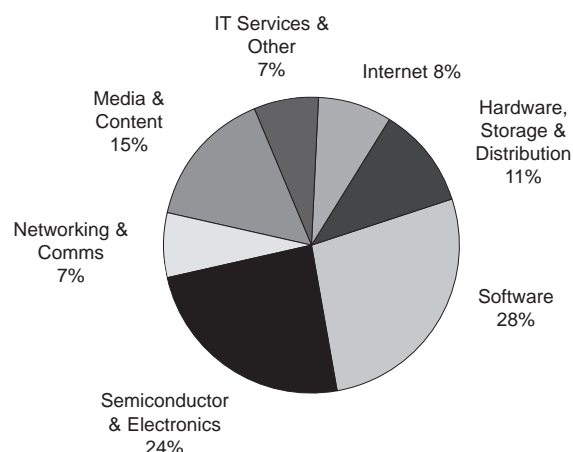
Source: Herald Investment Management Limited.



#### SECTOR SPLIT 31 DECEMBER 2004

	31/12/03	31/12/04
Semiconductor & Electronics	24%	24%
Networking & Communications	7%	7%
Media & Content	18%	15%
IT Services & Other	8%	7%
Internet Infrastructure & Services	3%	8%
Hardware, Storage & Distribution	12%	11%
Software	28%	28%

Source: Herald Investment Management Limited.



### Herald Investment Management Limited

## HERALD INVESTMENT FUND PLC

### PORTFOLIO OF INVESTMENTS as at 31 December 2004

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
<b>AUSTRIA 0.18% (2003: 0.29%)</b>				
<i>COMMERCIAL SERVICES &amp; SUPPLIES</i>				
50,000	Plaut AG	(a)	19,823	0.18
<b>BERMUDA Nil (2003: 0.78%)</b>				
<b>CANADA Nil% (2003: 2.32%)</b>				
<b>HONG KONG Nil (2003: 0.82%)</b>				
<b>IRELAND 1.26% (2003: 1.00%)</b>				
<i>SOFTWARE AND COMPUTER SERVICES</i>				
54,000	Iona Technologies plc	(a)	142,039	1.26
<b>ISRAEL Nil (2003: 1.96%)</b>				
<b>MALAYSIA 3.06% (2003: 2.29%)</b>				
<i>MEDIA</i>				
370,000	Star Publications (Malaysia) Berhad		344,864	3.06
<b>NORWAY 0.89% (2003: 0.63%)</b>				
<i>COMMUNICATIONS EQUIPMENT</i>				
80,000	Nera ASA		99,758	0.89
<b>TAIWAN 0.63% (2003: 1.39%)</b>				
<i>SEMICONDUCTOR EQUIPMENT &amp; PRODUCTS</i>				
38,517	United Micro Electronics Corp		70,819	0.63
<b>UNITED KINGDOM 37.76% (2003: 38.00%)</b>				
<i>COMMERCIAL SERVICES &amp; SUPPLIES</i>				
500,000	Thomson Intermedia plc		847,500	7.53
<i>COMMUNICATIONS EQUIPMENT</i>				
400,000	Amstrad plc		656,000	5.83
<i>COMPUTERS &amp; PERIPHERALS</i>				
630,000	Imagination Technologies Group		404,775	3.59
100,000	Plasmon plc		182,000	1.62
<i>DIVERSIFIED FINANCIALS</i>				
145,000	Herald Investment Trust plc		467,988	4.16
<i>IT CONSULTING &amp; SERVICES</i>				
630,000	Alphameric plc		504,000	4.48
<i>MEDIA</i>				
380,000	Aegis Group plc		410,400	3.64
<i>SOFTWARE AND COMPUTER SERVICES</i>				
375,000	Focus Solutions Group plc		148,125	1.31
180,000	Gresham Computing plc		496,800	4.41
32,000	Misys plc		66,960	0.59
550,000	Patsystems plc		67,375	0.60
<b>UNITED STATES 52.96% (42.89%)</b>				
<i>COMMUNICATIONS EQUIPMENT</i>				
43,000	Foundry Networks Inc	(a)	294,744	2.62
30,000	McDATA Corp	(a)	93,130	0.83
90,000	MRV Communications Inc	(a)	172,040	1.53
11,000	Qualcomm Inc	(a)	242,929	2.16

## HERALD INVESTMENT FUND PLC

### PORTFOLIO OF INVESTMENTS as at 31 December 2004 *continued*

NOMINAL	SECURITY NAME	CLASSIFICATION	VALUE GBP	FUND%
<b>UNITED STATES 52.96% (42.89%) <i>continued</i></b>				
<i>COMPUTERS &amp; PERIPHERALS</i>				
60,000	Advanced Digital Information Corp	(a)	313,141	2.78
20,000	Apple Computer Inc	(a)	670,868	5.96
22,000	EMC Corporation		170,394	1.51
10,000	Sandisk Corp	(a)	130,059	1.15
90,000	Simpletech Inc	(a)	215,636	1.91
<i>ELECTRONIC EQUIPMENT &amp; INSTRUMENTS</i>				
8,500	Arrow Electronics Inc		107,584	0.95
10,000	Jabil Circuit Inc		133,236	1.18
<i>INTERNET SOFTWARE &amp; SERVICES</i>				
38,000	Verisign Inc	(a)	663,451	5.89
<i>IT CONSULTING &amp; SERVICES</i>				
8,000	Manhattan Associates Inc	(a)	99,505	0.88
<i>MEDIA</i>				
20,000	Macrovision Corp	(a)	267,930	2.38
<i>SEMICONDUCTOR EQUIPMENT &amp; PRODUCTS</i>				
18,800	Analog Devices Inc		361,527	3.21
32,500	Asyst Technologies Inc	(a)	86,163	0.77
12,000	Xilinx Inc	(a)	185,322	1.65
<i>SOFTWARE</i>				
20,000	Citrix Systems Inc	(a)	255,534	2.27
20,000	Cognos Inc	(a)	458,982	4.08
21,000	Microsoft Corp	(a)	292,156	2.59
25,000	RSA Security Inc	(a)	261,211	2.32
15,000	Serena Software Inc	(a)	169,071	1.50
26,750	THQ Inc	(a)	319,623	2.84
<b>TOTAL INVESTMENTS</b>			<b>10,893,461</b>	<b>96.74</b>
Current assets			420,508	3.74
<b>Total assets</b>			<b>11,313,969</b>	<b>100.48</b>
Current liabilities			(54,144)	(0.48)
<b>NET ASSETS</b>			<b>11,259,825</b>	<b>100.00</b>

	<b>31 DECEMBER 2004</b>	<b>31 DECEMBER 2003</b>	<b>31 DECEMBER 2002</b>
Net Asset Value	GBP 11,259,825	GBP 14,754,559	GBP 9,665,089
Number of Shares in Issue	1,092,418	1,559,098	1,665,335
Net Asset Value per Share	GBP 10.31	GBP 9.46	GBP 5.80

#### Classification

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

#### Analysis of Total Assets

	<b>% of Total Assets</b>
Transferable securities as described in classification (a) above	47.54
Transferable securities admitted to an official stock exchange listing	48.74
Current assets	3.72
	<b>100.00</b>

## HERALD INVESTMENT FUND PLC

### PORTFOLIO CHANGES for the year ended 31 December 2004 (Unaudited)

<b>MAJOR PURCHASES</b>	<b>GBP VALUE</b>
Imagination Technologies Group	514,997
Foundry Networks Inc	313,618
Simpletech Inc	290,852
Hi P International	262,387
Qualcomm Inc	254,511
McDATA Corp	150,750
Kingboard Chemical Holdings Limited	134,082
Sandisk Corp	122,827



## HERALD INVESTMENT FUND PLC

### PORTFOLIO CHANGES for the year ended 31 December 2004 (Unaudited) *continued*

<b>MAJOR SALES</b>	<b>GBP VALUE</b>
Amstrad plc	552,833
Colt Telecom Group	537,423
Hi P International	411,255
Thomson Intermedia plc	381,796
Innovation Group	351,399
Comcast Corp	324,003
M - Systems Flash Disk Pioneers Limited	314,550
Taylor Nelson Sofres plc	306,577
Viacom Inc	302,942
Herald Investment Trust plc	302,687
Getty Images Inc	288,350
Black Box Corp	284,936
Chordiant Software Inc	270,358
Venture Corp Limited	216,794
Plasmon plc	179,459
Kingboard Chemical Holdings Limited	172,509
Acal plc	162,260
Onesource Information Services Inc	157,466
SmarTone Telecommunications Holdings Limited	119,646
Asia Satellite Telecommunications Holdings Limited	118,557
Advanced Fibre Communications Inc	86,378
Netscout Systems Inc	81,973
Credence Systems Corp	72,248
Realtek Semiconductor Corp	69,986
Clinical Computing plc	64,804

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 2004

	Note	GBP	Year ended 31/12/04 GBP	GBP	Year ended 31/12/03 GBP
Net gains on investments during the year	7		1,145,102		5,959,601
Other losses	8		(15,118)		(2,942)
Gross income	9	126,538		137,212	
Withholding tax		(24,257)		(5,643)	
Expenses	10	(233,472)		(222,870)	
		-----	(131,191)	-----	(91,301)
Total Return for the year			----- 998,793		----- 5,865,358
Net increase in Shareholders' Funds from investment activities			----- 998,793 =====		----- 5,865,358 =====

**On behalf of the Board of Directors**

**Alan Jeffers  
Adrian Waters**

**Date: 23 February 2005**

### STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS for the year ended 31 December 2004

	GBP	Year ended 31/12/04 GBP	GBP	Year ended 31/12/03 GBP
Net assets at the start of the year		14,754,559		9,665,089
Movement due to sale and repurchase of Shares				
Amounts received on sale of Shares	63,578		558,367	
less: Amounts paid on repurchase of Shares	(5,167,756)		(1,465,043)	
Equalisation	610,651		130,788	
	-----	(4,493,527)	-----	(775,888)
Net increase in Shareholders' Funds from investment activities		998,793		5,865,358
Net assets at the end of the year		----- 11,259,825 =====		----- 14,754,559 =====

**On behalf of the Board of Directors**

**Alan Jeffers  
Adrian Waters**

**Date: 23 February 2005**

# HERALD INVESTMENT FUND PLC

## BALANCE SHEET as at 31 December 2004

	<b>Note</b>	<b>31/12/04 GBP</b>	<b>31/12/03 GBP</b>
Portfolio of Investments	1(e)	10,893,461	13,839,122
Net current assets			
Debtors	11	1,005	56,733
Cash and bank balances	12	419,503	910,661
		420,508	967,394
Less			
Creditors	13	(54,144)	(51,957)
Net current assets		366,364	915,437
Net assets		11,259,825	14,754,559
Shareholders' Funds		11,259,825	14,754,559
Net Asset Value per Share		10.31	9.46

**On behalf of the Board of Directors**

**Alan Jeffers**

**Adrian Waters**

**Date: 23 February 2005**

# HERALD INVESTMENT FUND PLC

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004 *continued*

### 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 and, except for the treatment of taking to the Profit and Loss Account (Statement of Total Return) unrealised gains and losses arising on the valuation of marketable investments, in accordance with the Companies Acts 1963 to 2003 (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 the most part 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 may declare and pay a distribution in April of each year in an amount not less than 85 per cent of the Company's net income, where sufficient net income is available for distribution.

### 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 Funds issued by the Investment Management Association in November 2003, 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 and FRS 3 "Reporting Financial Performance" so that, in the opinion of the Directors, they more appropriately reflect the nature of the Company's investment business. The Profit and Loss Account is referred to as the Statement of Total Return 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 18. In arriving at the results for the year, all amounts in the Statement of Total Return on page 18 relate to continuing activities.

# HERALD INVESTMENT FUND PLC

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004 *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 movement in unrealised gains/(losses) for the year is shown in note 7.

In the opinion of the Directors, in all other respects the financial statements present the information required by the Companies Acts, 1963 to 2003.

### 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. No performance fee was earned during the year.

#### Administrator

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

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

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

#### 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 2004 *continued*

#### 5. Equalisation

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

	<b>Year ended 31/12/04 GBP</b>	<b>Year ended 31/12/03 GBP</b>
Income deducted on sale of Shares	(8,578)	(68,275)
Income received on repurchase of Shares	619,229	199,063
	610,651	130,788

#### 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 on investments during the year

The net gains on investments during the year comprise:

	<b>Note</b>	<b>Year ended 31/12/04 GBP</b>	<b>Year ended 31/12/03 GBP</b>
Proceeds from sales of investments during the year		6,134,598	5,689,224
Original cost of investments sold during the year		(5,065,791)	(9,646,987)
Gains/(losses) realised on investments sold during the year	1(c)	1,068,807	(3,957,763)
Net movement in unrealised gain/(losses) on investments for the year		76,295	9,917,364
Net gains on investments during the year		1,145,102	5,959,601

#### 8. Other losses

		<b>Year ended 31/12/04 GBP</b>	<b>Year ended 31/12/03 GBP</b>
Other losses comprise:			
Foreign exchange losses on capital assets	1(f)	(15,118)	(2,942)

#### 9. Gross income

		<b>Year ended 31/12/04 GBP</b>	<b>Year ended 31/12/03 GBP</b>
Income from investments	1(b)	121,896	130,247
Bank interest	1(b)	3,110	6,965
Other income		1,532	—
		126,538	137,212

## HERALD INVESTMENT FUND PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004 *continued*

#### 10. Expenses

	Note	Year ended 31/12/04 GBP	Year ended 31/12/03 GBP
<b>Payable to the Investment Manager</b>			
Investment Management fee	3	(91,920)	(92,337)
<b>Payable to the Administrator</b>			
Administration fee	3	(49,279)	(49,864)
Registration fee	3	(3,771)	(3,900)
		-----	-----
		(53,050)	(53,764)
<b>Payable to the Custodian</b>			
Custody fee	3	(3,024)	(3,094)
Sub-custody fee	3	(2,510)	(3,650)
Transaction fee	3	(5,516)	(6,600)
		-----	-----
		(11,050)	(13,344)
<b>Other expenses</b>			
Audit fee		(9,476)	(9,408)
Directors' remuneration		(28,430)	(25,500)
Other		(39,546)	(28,517)
		-----	-----
		(77,452)	(63,425)
<b>Total expenses</b>		(233,472)	(222,870)
		=====	=====

#### 11. Debtors

	31/12/04 GBP	31/12/03 GBP
Accrued income	1,005	2,648
Sale of securities awaiting settlement	—	54,085
	-----	-----
	1,005	56,733
	=====	=====

#### 12. Cash and bank balances

	31/12/04 GBP	31/12/03 GBP
Cash and bank balances	419,503	910,661
	=====	=====

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

#### 13. Creditors

	31/12/04 GBP	31/12/03 GBP
Amounts payable on repurchase of Shares	(5,815)	(7,689)
Accrued expenses	(48,329)	(44,268)
	-----	-----
	(54,144)	(51,957)
	=====	=====

# HERALD INVESTMENT FUND PLC

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004 *continued*

### 14. Exchange rates

The following GBP exchange rates used in this report at 31 December 2004 were :

EUR	1.4125
MYR	7.2956
NOK	11.6282
TWD	60.8417
US\$	1.9199

### 15. Purchases and sales of investments during the year

	Year ended 31/12/04 GBP	Year ended 31/12/03 GBP
Total purchases	2,043,864	4,141,122
Total sales	6,134,598	5,689,224

### 16. Related party transactions

Herald Investment Management Limited, who acts as Investment Manager of the Fund earned GBP91,920 (2003: GBP92,337) during the year for providing this service. At the year end GBP7,091 (2003: 8,910) 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 Fund are set out in the Portfolio of Investments on page 14 to 15. The main risks and policies relating to financial instruments are set out on page 3.

#### Political and/or Regulatory risks

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

#### Currency risk

The 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 2004 *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 2004

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

#### 31 December 2003

Currency	Investments GBP	Other Net Assets GBP	Total GBP
EUR	43,333	—	43,333
HKS	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
	8,232,158	5,266	8,237,424
	8,232,158	5,266	8,237,424

#### 19. Subscriber Shares

As at 31 December 2004, 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 23 February 2005.

# HERALD INVESTMENT FUND PLC

## Other Information

### DIRECTORS

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

### 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

### INDEPENDENT AUDITORS

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

### COMPANY SECRETARY

State Street Fund Services (Ireland) Limited  
Guild House, Guild Street  
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