

HERALD INVESTMENT TRUST plc

HALF-YEARLY FINANCIAL REPORT

For the six months ended 30 June 2015

INVESTMENT POLICY

Herald's objective is to achieve capital appreciation through investments in smaller quoted companies, in the areas of telecommunications, multimedia and technology (TMT). Investments may be made across the world. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising other price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. An explanation of these risks and how they are managed is contained in note 20 of the Company's Annual Report and Financial Statements for the year to 31 December 2014. The principal risks and uncertainties have not changed since the publication of the Annual Report which can be obtained free of charge from Herald Investment Management Limited (see contact details on the inside back cover of this report) and is available on the Managers' website: www.heralduk.com. Other risks facing the Company include the following: regulatory risk (that the loss of investment trust status or a breach of applicable legal and regulatory requirements could have adverse financial consequences and cause reputational damage), operational/financial risk (failure of service providers' accounting systems could lead to inaccurate reporting or financial loss), the risk that the discount can widen and gearing risk (the use of borrowings can magnify the impact of falling markets). Further information can be found on page 23 of the Annual Report and Financial Statements.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- b) the Chairman's Review includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, and their impact on the financial statements and a description of principal risks and uncertainties for the remaining six months of the year); and
- c) the Half-Yearly Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein – see note 3 on page 11).

By order of the Board

Julian Cazalet
Chairman

21 July 2015

SUMMARY OF PERFORMANCE

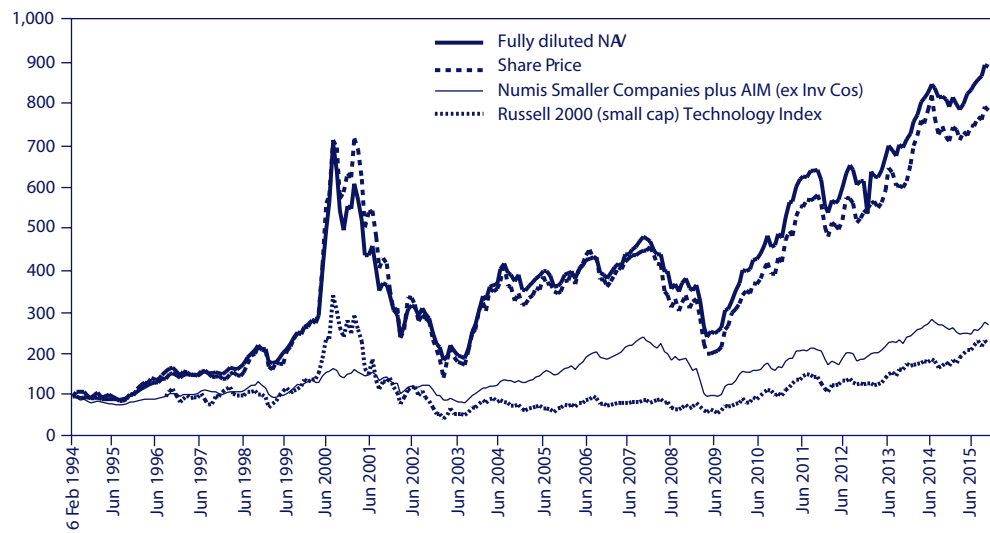
	At inception 16 February 1994	At 31 December 2014	At 30 June 2015	Performance since 31 December 2014	Performance since inception
NAV per share (including current year income)	98.7p	813.2p	877.5p	7.9%	789.1%
NAV per share (excluding current year income)	98.7p	815.1p	877.4p	7.6%	789.0%
Share price	90.9p	659.0p	712.0p	8.0%	683.3%
Numis Smaller Companies plus AIM (ex. investment companies)	1,750.0	4,390.7	4,755.7	8.3%	171.8%
Russell 2000 (small cap) Technology Index (in sterling terms)†	688.7*	1,450.3	1,536.7	6.0%	123.1%

* At 9 April 1996 being the date funds were first available for international investment.

† The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents. The rebased index has been used from 31 December 2008 onwards.

Past performance is not a guide to future performance.

Relative performance of Herald's fully diluted NAV and share price to indices since inception (figures have been rebased to 100 at 16 February 1994)



Source: Thomson Reuters Datastream

CHAIRMAN'S REVIEW

The Company's net asset value per share appreciated by 7.9% and closed the half year at 877.5p, another period end high. A steady stream of takeovers was announced. This comprised eight holdings with an aggregate value to the Company of £44m, and included three very long term holdings in Kofax, Phoenix IT and Advent Software. Historically, the majority of takeovers have been in the UK portfolio, but last year a high proportion of the US portfolio was acquired and there have been five offers in the US portfolio so far this year. The uplift associated with the takeovers contributed 25% of net asset appreciation in the period.

In the first half of 2015 the UK returned +7.0% versus the return of the Numis Smaller Companies Index plus AIM (ex. investment companies) of +8.3%. The UK, the Company's most important region, accounting for 67% of net assets, marginally lagged the overseas return. However, the UK appreciated 6% in the second quarter when the overseas contribution was negative. Over the life of the fund the annualised return of our UK portfolio has been 17.8%, versus the Numis Index total return of 7.7%. In the period under review, our US portfolio returned 11.2%, compared to the sterling return of 6.0% for the Russell 2000 Technology Index; the small European portfolio returned 17.1%; and the Asian portfolio returned 8.0%. During this period the overseas markets delivered higher returns than the UK, but there appears to be more intrinsic value in microcaps in the home market.

The Company participated in twenty-two follow on primary placings in the first half, with an aggregate value of around £10m. The handful of Initial Public Offerings did not tempt the Manager. In the UK uncertainties ahead of the election inhibited some potential fund raisings, while in the US the activity has focused on fund raisings in the private arena, and valuations for IPOs seem to have been full, and often in excess of the small company remit of this fund. There is a constant and voluminous flow of small companies seeking capital, and it is the Manager's challenge judiciously to select which ones to fund.

The global technology sector overall had a relatively flat performance in the first half. In sterling terms, NASDAQ returned 3.5%, while the return on the Russell 1000 technology Index was -0.2%, lagging the Russell 2000 (small cap) Technology Index by 6.2%, and the Company by 8.1%. This significantly reflects the fact that the profits of the big global US companies have been suffering from a headwind from the relative strength of the dollar. The Asian market has suffered from weak personal computer sales, which had been stimulated last year by Microsoft's discontinuing support for Windows XP, and the maturing of the mobile phone market. In contrast the UK returns have been bolstered by further takeover approaches from US and Japanese companies for UK companies such as Telecity, Pace, Domino Printing Sciences and Anite, none of which is currently held in the portfolio. In fact companies in the takeover process, including CSR whose takeover by Qualcomm announced last year has yet to be completed, account for around 15% of the FTSE-IT Index. Of particular interest, Arris has announced a reverse takeover of Pace, so that the tax domicile will be UK. The US global companies have hoarded cash outside the US to avoid 35% Federal tax on repatriation, and State tax in addition. The US looks set to reform this.

The first half proved a reasonably benign environment for investee companies to make steady progress. Greece does not seem a relevant concern to this Company and is significantly discounted, but the capital markets bubble in China in both debt and equity now shows signs of bursting, and may have more ramifications. The internet is continuing to offer exciting disruptive opportunities, which give scope for smaller companies to exploit. The UK seems to be particularly innovative, albeit constrained by lack of capital. However, modern technology also reduces the capital needed because IT companies can inexpensively rent hardware from the proliferating datacentres. The US is innovative too, but is largely funded privately at

CHAIRMAN'S REVIEW *continued*

valuations that seem hard to justify. Furthermore the valuations that some of these emerging companies are attaining is distorting the labour market, because employees have hit the jackpot in gains on share options and restricted stock units. This bubble seems focused on Northern California, with less inflated expectations on the East Coast and even in Seattle and Southern California. The influx of these West Coast companies to London is conspicuously tightening the UK labour market, but provides valuable training.

Future performance is more likely to come from AIM than from fully listed companies. Although the regulatory regime perceives greater risk in the less researched, less liquid part of the market, which includes AIM, which in turn exacerbated these risks, it seems one of the few asset classes where there remain some attractive investment values. It is particularly fulfilling to see so many holdings that have benefited from the primary capital that the Company has provided.

The Manager is confident in the outlook for the portfolio companies, albeit this enthusiasm is tempered by the evolution of financial markets both in the UK and elsewhere, and by global economic uncertainties.

Julian Cazalet
Chairman
21 July 2015

TOP TWENTY EQUITY HOLDINGS

AT 30 JUNE 2015

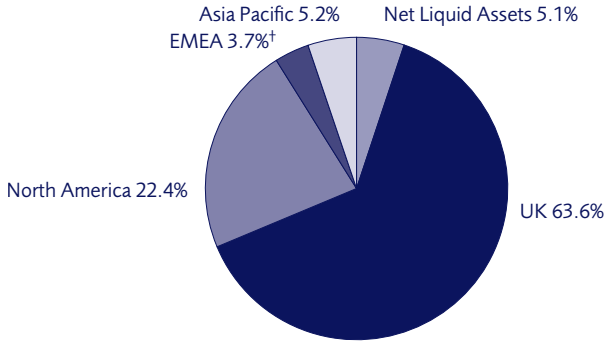
Company	Business	Value £'000	% of total assets*
Imagination Technologies	Licensor of semiconductor intellectual property	19,827	2.8
Diploma	Distributor of components and systems	18,479	2.6
GB Group	Intelligent identity software and services	14,571	2.0
SDL	Software and services for website globalisation	13,941	2.0
Silicon Motion Technology	Develops controllers used in flash memory	12,100	1.7
M&C Saatchi	Global marketing services business	12,099	1.7
Phoenix IT	IT infrastructure support services	11,964	1.7
SQS Software Quality Systems	Specialist in software quality and software testing	11,502	1.6
Wilmington	Provides information and training to professional business markets	11,186	1.6
Advent Software	Develops accounting software and other systems for fund managers	11,148	1.5
Telit Communications	Wireless machine to machine modems	11,024	1.5
Euromoney Institutional Investor	Business to business media group	10,953	1.5
Next Fifteen Communications	Supplier of marketing communications services	10,873	1.5
IDOX	Supplier of software solutions primarily to the UK public sector	10,731	1.5
Opsec Security	Developer and supplier of anti-counterfeiting holograms	10,679	1.5
NCC	Provides independent escrow services for software products and IT security services	9,817	1.4
Alternative Networks	Provider of telecomms and networking products and services	9,114	1.3
Radware	Develops application delivery and application security solutions	8,744	1.2
Telecom Plus	Supplier of telecommunications services and other utilities	8,375	1.2
Eckoh	Supplier of products and services based on speech recognition	7,570	1.1
		<u>234,697</u>	<u>32.9</u>

* Total assets before deduction of bank loans and derivative financial instruments.

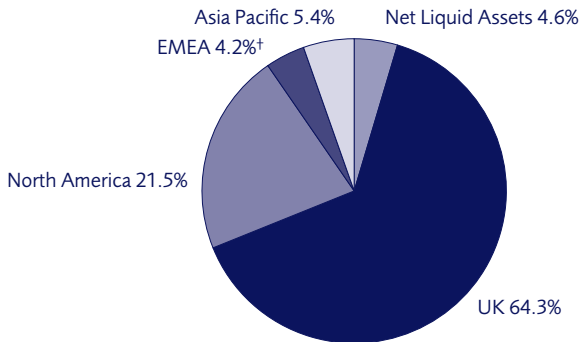
GEOGRAPHIC SPREAD OF INVESTMENTS

(DISTRIBUTION OF TOTAL ASSETS*)

30 June 2015



31 December 2014



* Total assets before deduction of bank loans and derivative financial instruments.

† EMEA stands for Europe, Middle East and Africa.

INCOME STATEMENT

(UNAUDITED)

	For the six months ended 30 June 2015		
	Revenue £'000	Capital £'000	Total £'000
Gains on sales of investments	–	22,501	22,501
Movements in investment holding gains/(losses)	–	25,901	25,901
Fair value movement on interest rate swap	–	1,551	1,551
Currency losses	–	(551)	(551)
Income from investments and interest receivable	4,727	–	4,727
Investment management fee (note 3)	(3,320)	–	(3,320)
Other administrative expenses	(200)	(1)	(201)
Net return before finance costs and taxation	1,207	49,401	50,608
Finance costs of borrowings	(951)	–	(951)
Net return before taxation	256	49,401	49,657
Taxation	(143)	–	(143)
Net return after taxation	113	49,401	49,514
Net return per ordinary share (note 4)	0.14p	63.91p	64.05p
Weighted average number of ordinary shares in issue during each period	77,301,474		

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the period.

STATEMENT

DITED)

**For the six months ended
30 June 2014**

Revenue £'000	Capital £'000	Total £'000
–	26,621	26,621
–	(25,470)	(25,470)
–	(1,885)	(1,885)
–	(133)	(133)
3,826	–	3,826
(3,188)	–	(3,188)
(206)	(1)	(207)
<hr/>		
432	(868)	(436)
(1,374)	–	(1,374)
<hr/>		
(942)	(868)	(1,810)
(96)	–	(96)
<hr/>		
(1,038)	(868)	(1,906)
<hr/>		
(1.34p)	(1.12p)	(2.46p)
<hr/>		

77,679,270

BALANCE SHEET

(UNAUDITED)

	As at 30 June 2015 £'000	As at 31 December 2014 £'000
Fixed assets		
Investments held at fair value through profit or loss	677,972	636,908
Current assets		
Debtors	1,144	1,253
Cash and short term deposits	36,184	30,850
	37,328	32,103
Creditors: amounts falling due within one year		
Creditors (note 6)	(25,982)	(26,560)
Derivative financial instruments (note 6)	(11,983)	(13,534)
	(37,965)	(40,094)
Net current liabilities	(637)	(7,991)
Total net assets	677,335	628,917
Capital and reserves		
Called up share capital	19,297	19,335
Share premium	73,738	73,738
Capital redemption reserve	2,655	2,617
Capital reserve	581,251	532,946
Revenue reserve	394	281
Shareholders' funds	677,335	628,917
Net asset value per ordinary share (including current period income)	877.53p	813.19p
Net asset value per ordinary share (excluding current period income)	877.38p	815.08p
Ordinary shares in issue (note 8)	77,186,546	77,339,546

STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

For the six months ended 30 June 2015

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Share- holders' funds £'000
Shareholders' funds at 1 January 2015	19,335	73,738	2,617	532,946	281	628,917
Net return after taxation	–	–	–	49,401	113	49,514
Shares bought back (note 8)	(38)	–	38	(1,096)	–	(1,096)
Dividends paid during the year (note 5)	–	–	–	–	–	–
Shareholders' funds at 30 June 2015	19,297	73,738	2,655	581,251	394	677,335

For the six months ended 30 June 2014

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Share- holders' funds £'000
Shareholders' funds at 1 January 2014	19,420	73,738	2,532	526,168	1,745	623,603
Net return after taxation	–	–	–	(868)	(1,038)	(1,906)
Shares bought back (note 8)	(13)	–	13	(324)	–	(324)
Dividends paid during the year (note 5)	–	–	–	–	–	–
Shareholders' funds at 30 June 2014	19,407	73,738	2,545	524,976	707	621,373

* The capital reserves as at 30 June 2015 include investment holdings gains of £207,678,000 (30 June 2014 - £184,134,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1 Financial Statements

The condensed financial statements for the six months to 30 June 2015 within the Half Yearly Report comprise the statements set out on pages 7 to 10 together with the related notes on pages 11 to 13. The condensed financial statements do not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006 and have been neither audited or reviewed by the Company's auditors. Financial information in relation to the year ended 31 December 2014 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditors' report on those accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Company's assets, the majority of which are investments in quoted securities, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. In accordance with the Company's Articles of Association, shareholders have the right to vote on the continuation of the Company every three years with the next vote being in April 2016. Accordingly, the financial statements have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

2 Accounting Policies

For the year ending 31 December 2015 the company is applying, for the first time, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS102), which forms part of revised Generally Accepted Accounting Practice ('New UK GAAP') issued by the Financial Reporting Council in 2012 and 2013.

The condensed set of financial statements for the six months to 30 June 2015 has been prepared in accordance with FRS 102, 'Interim Financial Reporting' (FRS 104) issued by the FRC in March 2015 and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in November 2014.

As a result of the first time adoption of 'New UK GAAP' and the revised SORP, comparative amounts and presentation formats have been amended where required. The net return attributable to ordinary shareholders and equity shareholders' funds remain unchanged from under old GAAP basis, as reported in the preceding annual and interim reports. As an investment fund with substantially all investments both highly liquid and carried at market value, the Company has taken the option not to present a statement of cash flows.

The accounting policies applied for the condensed set of financial statements are as set out in the Company's Annual Report for the year ended 31 December 2014. However the references to prior, individual Financial Reporting Statements (FRS) should now be taken to reference FRS 102.

3 Investment Management Fee

Herald Investment Management Limited is appointed investment manager under a management agreement which is terminable on twelve months' notice. Its annual remuneration is 1.0% of the Company's net asset value based on middle market prices, calculated on a monthly basis payable in arrears. The management fee is levied on all assets except the holding in Herald Ventures II Limited Partnership managed by Herald Investment Management Limited.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(UNAUDITED) *continued*

4 Net return per ordinary share	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000
Revenue return after taxation	113	(1,038)
Capital return after taxation	49,401	(868)
Total net return	<u>49,514</u>	<u>(1,906)</u>
Weighted average number of ordinary shares	<u>77,301,474</u>	<u>77,679,270</u>

Net return per ordinary share is based on the above totals of revenue and capital and the weighted average number of ordinary shares in issue during each period.

There are no dilutive or potentially dilutive shares in issue.

5 Dividends

In accordance with FRS 102 Section 32 'Events After the End of the Reporting Period', the final dividend payable on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

Dividends paid on ordinary shares in respect of earnings for each period are as follows:

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000
Amounts recognised as distributions in the period:		
Final dividend for the year ended 31 December 2014 - nil (2013 - nil)	<u>–</u>	<u>–</u>

No interim dividend will be declared.

- 6 The Company had a £50 million multi-currency variable rate loan facility with Royal Bank of Scotland plc, which expired in December 2014 with full repayment of the £25 million that was drawdown. This was replaced on 31 December 2014 with a sterling loan facility of £25 million and a £25 million multi-currency revolving advance loan maturing in December 2017.

At 30 June 2015, the sterling loan facility was fully drawdown. Interest on the loan is payable in quarterly instalments in January, April, July and October. The estimated repayment value of the loan at 30 June 2015 was £25 million. The indicative costs of repaying the loan as at 30 June 2015 were not materially different in the context of the above figures.

The interest on these facilities is fixed for the long term through a 30 year interest rate swap but may vary on periodic renewals of the facilities to the extent that the mark up over LIBOR charged by a lending bank varies. The fair value of the interest rate swap contract at 30 June 2015 was an estimated liability of £12.0 million (31 December 2014 – £13.5 million) which was based on the swap provider's valuation.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

7 Financial Instruments

The company's investments and derivative financial instruments, as disclosed in the Company's Balance Sheet, are valued at fair value.

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

Level (a) Quoted prices for identical instruments in active markets

Level (b) Prices of a recent transaction for identical instruments

Level (c) Valuation techniques that use:

(i) Observable market data or

(ii) Non-observable data

The analysis of the valuation basis for the financial instruments based on the hierarchy as at 30 June 2015 is as follows:

	30 June 2015		31 December 2014	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level (a)	665,056	–	627,243	–
Level (c) (i)	–	(11,983)	–	(13,534)
Level (c) (ii)	12,916	–	9,665	–
Total	<u>677,972</u>	<u>(11,983)</u>	<u>636,908</u>	<u>(13,534)</u>

For exchange listed equity AIM investments the quoted price is the bid price. The interest rate swap is valued using observable market data based on the swap provider's valuation compared to an external valuation model and external prices. The unlisted investments have been valued based on the directors' best estimate based on latest information in line with the principles of the International Private and Venture Capital Valuation Guidelines.

- 8 At the Annual General Meeting held on 21 April 2015, the Company's authority to buy back shares was renewed in respect of 11,585,703 ordinary shares (equivalent to 14.99% of its issued share capital at that date). In the six months to 30 June 2015 a total of 153,000 (30 June 2014 – 50,000) ordinary shares of 25p each were bought back at a total cost of £1,096,000 (30 June 2014 – £324,000). At 30 June the Company had authority to buy back a further 11,432,703 ordinary shares.
- 9 During the period, cost of purchases amounted to £46,417,000 (30 June 2014 – £46,236,000) and proceeds of sales amounted to £53,119,000 (30 June 2014 – £52,680,000). Transaction costs of £229,000 (30 June 2014 – £150,000) were incurred on the purchase of investments and £123,000 (30 June 2014 – £151,000) on sales of investments.

DIRECTORS, MANAGER AND ADVISERS

DIRECTORS

C J Cazalet (Chairman)
T J Black
D C P McDougall OBE
K S Sternberg
J R Will

SECRETARY

Law Debenture Corporate Services Limited
Fifth Floor
100 Wood Street
London
EC2V 7EX
Tel: 020 7696 5285

REGISTERED OFFICE

10-11 Charterhouse Square
London EC1M 6EE

COMPANY NUMBER

2879728 (England and Wales)

INVESTMENT MANAGER

Katie Potts
Herald Investment Management Limited
10-11 Charterhouse Square
London EC1M 6EE
Tel: 020 7553 6300
Fax: 020 7490 8026
Website: www.heralduk.com
E-mail: info@heralduk.com

ADMINISTRATOR

The Bank of New York Mellon
One Canada Square
London E14 5AL

SOLICITORS

Macfarlanes
20 Cursitor Street
London EC4A 1LT

INDEPENDENT AUDITOR

Ernst & Young LLP
1 More London Place
London SE1 2AF

BANKERS

The Bank of New York Mellon
One Piccadilly Gardens
Manchester M1 1RN

STOCKBROKERS

JP Morgan Cazenove Ltd
25 Bank Street
Canary Wharf
London E14 5JP

N+1 Singer
One Bartholomew Lane
London EC2N 2AX

REGISTRARS

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 0871 664 0300

DEPOSITARY

BNY Mellon Trust & Depositary (UK) Ltd
160 Queen Victoria Street
London EC4V 7LA

HERALD INVESTMENT TRUST plc