

PRELIMINARY STOCK EXCHANGE ANNOUNCEMENT

HERALD INVESTMENT TRUST plc

Results for the six months ended 30 June 2010

28 July 2010

The following is the unaudited Half-Yearly Financial Report for the six months to 30 June 2010

HERALD INVESTMENT TRUST plc

Half-Yearly Financial Report 30 June 2010

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).

By order of the Board

Julian Cazalet
Chairman

27 July 2010

HERALD INVESTMENT TRUST plc

CHAIRMAN'S REVIEW

It is satisfactory to report a rise in the net asset value per share of 8.3% against a background of zero sterling returns in the S&P 500 in the US and the Nikkei Index in Japan, worse returns in the European indices including the FTSE 100, and a 20% decline in the Shanghai Index. This reflects a solid total return in the UK portfolio of 8.6%, a \$ return of 5.6% on the US portfolio enhanced by the weakness of £ to give a 14.3% return in £. In contrast the European portfolio grew 7.3% in local currencies, which translated into a negative return of 0.8% in £, and the Far East portfolio declined 3.9% in local currencies to give a 1.2% £ return. Although the mandate is global, the UK portfolio accounts for as much as 65% of the total net assets at 30 June 2010. This reflects the Manager's current perception of greater value in the UK market, combined with profit taking in the US portfolio in the half following a particularly strong run, reducing the US proportion to an unusually low 22.7%. Opportunities will be taken to redeploy assets to the US, now that the market has weakened, because the US remains the leading territory for innovation, and has the strongest ability to exploit this profitably, with a regulatory environment which protects shareholders better than those of many currently fashionable markets.

The trading background for companies has been much more sympathetic than last year, when decision making was on hold, and destocking the order of the day, following the traumas of the financial markets in the autumn of 2008. Comparables will become more challenging, as fiscal tightening seems to be the necessary order of the day in the UK and elsewhere, and stocks are replenished. However, the focus of the portfolio is on defensive holdings of companies with recurring revenue streams, and companies where disruptive technologies are creating growth in new products and markets. Unquestionably the growth in internet usage continues to be the most powerful driver in the TMT space, in which the Trust invests, and within that the mobile internet has shown the most dramatic growth this year. The portfolio is deliberately directed to the plethora of smaller companies that seem placed to exploit this disruptive market.

In the UK the most powerful driver to valuations has been the persistent withdrawal of cash from the UK smaller companies market every year this century. It is interesting to see the statistics published by the Office for National Statistics which reports that as recently as 1992 insurance companies, pension funds and individuals owned 72.3% of the UK stock market. By 1999 this had declined to 56.5%, and by the end of 2008 to 36.4%. Offsetting these declines, overseas investors had grown from 13.1% to 33.0% to 41.5%, while other financial institutions (hedge funds etc) grew from 0.4% to 3.1% to 10.0%. Of these growth categories, overseas investors are effectively not investors in smaller UK companies, and hedge funds dabbled, but appear to have exited completely in the financial disruption which led to hedge fund redemptions and deleveraging in the second half of 2008 and the first quarter of 2009. Compounding this technical overhang which led to such a sharp reduction in the Trust's portfolio value in 2008, open ended funds such as unit trusts were also distressed sellers having to fund redemptions. These open ended structures are really unsuited to the relatively illiquid nature of smaller companies, while pension funds and insurance companies, which are, have largely left the market. This background has led to the virtual closure of the market for primary capital, which persists today. For UK tax payers this is a worrying trend because growth capital for young companies is in desperately short supply, and highly desirable for job creation. For investors in Herald Investment Trust, apart from the unsatisfactorily wide discount, it is not an unappealing environment. The cash position accumulated by the end of 2007, combined with a flow of takeovers, has enabled the accumulation of bigger stakes in more companies. The issue is how value will be realised. Further takeover bids from US technology companies, which have vast quantities of excess capital seems inevitable, but more importantly in a world of

HERALD INVESTMENT TRUST plc

CHAIRMAN'S REVIEW (Continued)

minimal returns from bonds, capital seems bound to be drawn to the plethora of companies which seem to be trading on less than 10x free cash flow with growth. No individual holding contributed significantly to the overall performance, albeit a decline of 50% in the price of Intec Telecom which reduced the value of the holding by £2.3m, albeit this followed an even greater rise in 2009.

The 5.6% \$ return on the US portfolio (14.3% in £) compares to a 2.7% decline in the benchmark Russell 2000 Technology index. This Index movement comprised a 6.2% \$ rise in the first quarter followed by an 8.4% decline in Q2. In £ the rise to the end of April was 16.4% followed by a 9.8% decline in May and June, to give a £ benchmark return of 5.0%. This led to some profit taking at the end of March, and the beginning of May, the proceeds of which will be reinvested as opportunities arise.

The worrying structural flaws in European economies led to the weighting in Europe being further reduced to 2.1% of the portfolio, so the poor performance of -0.8% in £ was not too much of a drag. While the UK is not without problems, the UK banking sector has been significantly recapitalised, the UK economy has taken on the chin a recovery in the savings ratio from nothing to 7%, and the Government does seem purposeful about controlling the fiscal deficit. In the US the fiscal and trade deficits remain a concern, but the banks are well capitalised, and in the TMT space intellectual leadership, and tremendously strong balance sheets seem to ensure that the US will continue to dominate in terms of profitability for a while. In contrast, the European issues seem yet to be addressed. The excess leverage in German banks, and to a lesser degree French ones, reflecting a high exposure to fringe Europe, both within and without the Euro, is the principal deterrent from utilising the borrowing facility at the current time, in spite of the availability of apparently compelling valuations. While Germany is a rich enough nation to recapitalise its banks at the current time, it does not seem tenable for Germany to take on the liabilities of the whole of the Eurozone, and a rupture of some sort seems inevitable. This could scare equity markets on a wider basis, which makes leverage unwise at the current time, while retaining the ability to exploit opportunities that any dip may bring.

The Asian portfolio is concentrated in Taiwan and Korea, whose industries have moved up the value chain more than China. Having risen 137% in 2009, the portfolio grew 1.2% in £. Whilst the trade surplus that China enjoys significantly reflects component manufacturing and assembly in the technology space, which Herald targets, it is difficult to find compelling investment opportunities, reflecting the lack of pricing power, and an opaque reporting system. Generally it seems safer to exploit this emerging growth through US companies which subcontract manufacturing to China, or Western companies that can sell to the emerging markets. Nevertheless, there are opportunities and over time these will grow.

In a challenging world Herald invests in an interesting, if somewhat neglected asset class, where there is growth, and cash generation. It is rewarding to see so many companies in the portfolio making sound progress, having invested in them at an embryonic stage.

The principal risks and uncertainties facing the Company are set out in note 9.

Julian Cazalet
Chairman
27 July 2010

HERALD INVESTMENT TRUST plc

Summary of Performance

	At inception 16 February 1994	At 31 December 2009	At 30 June 2010	Performance since 31 December 2009	Performance since inception
NAV per share	98.7p	420.6p	455.5p	8.3%	361.5%
Share price ‡	90.9p	337.8p	358.0p	6.0%	293.8%
FTSE 100 Index	3,417.7	5,412.9	4,916.9	(9.2%)	43.9%
HGSC Index plus AIM (capital gains ex. investment companies)	1,750.0	2,838.2	2,856.8	0.7%	63.2%
Russell 2000 (small cap) Technology Index (in sterling terms) ^{††}	688.7*	678.5	712.4	5.0%	3.4%

‡ Mid market price.

* 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.

From 1 January 2006 the benchmark was changed to 2/3 Hoare Govett Smaller Companies Index plus AIM (capital gains ex. investment companies) and 1/3 Russell 2000 (small cap) Technology Index (in sterling terms).

Past performance is not a guide to future performance.

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For further information please contact:

Ms Katie Potts, Manager
Herald Investment Trust plc

020 7553 6300

Baillie Gifford & Co
Secretaries

0131 275 2000

HERALD INVESTMENT TRUST plc

INCOME STATEMENT (unaudited)

	For the six months ended 30 June 2010			For the six months ended 30 June 2009			For the year ended 31 December 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on sales of investments	-	11,658	11,658	-	(8)	(8)	-	(7,581)	(7,581)
Movements in investment holding gains	-	20,018	20,018	-	54,363	54,363	-	138,518	138,518
Fair value movement on interest rate swap	-	(3,974)	(3,974)	-	9,218	9,218	-	8,781	8,781
Currency gains	-	89	89	-	160	160	-	311	311
Income from investments and interest receivable	3,385	-	3,385	2,630	-	2,630	6,051	-	6,051
Other income	-	-	-	-	-	-	26	-	26
Investment management fee	(1,825)	-	(1,825)	(1,175)	-	(1,175)	(2,773)	-	(2,773)
VAT recovered	-	-	-	-	-	-	292	-	292
Other administrative expenses	(150)	-	(150)	(172)	-	(172)	(313)	-	(313)
Net return before finance costs and taxation	1,410	27,791	29,201	1,283	63,733	65,016	3,283	140,029	143,312
Finance costs of borrowings	(1,412)	-	(1,412)	(1,424)	-	(1,424)	(2,875)	-	(2,875)
Net return on ordinary activities before taxation	(2)	27,791	27,789	(141)	63,733	63,592	408	140,029	140,437
Tax on ordinary activities	(46)	-	(46)	(44)	-	(44)	(84)	-	(84)
Net return on ordinary activities after taxation	(48)	27,791	27,743	(185)	63,733	63,548	324	140,029	140,353
Net return per ordinary share (note 4)	(0.06p)	34.42p	34.36p	(0.22p)	76.96p	76.74p	0.39p	169.95p	170.34p
Weighted average number of ordinary shares in issue during each period	<u>80,745,769</u>			<u>82,809,374</u>			<u>82,397,262</u>		

*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 year.
A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.*

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BALANCE SHEET (unaudited)

	At 30 June 2010 £'000	At 30 June 2009 £'000	At 31 December 2009 £'000
Fixed assets			
Investments held at fair value through profit or loss	384,742	293,421	380,457
Current assets			
Debtors	979	1,441	1,593
Cash and short term deposits	40,795	32,028	18,551
	<u>41,774</u>	<u>33,469</u>	<u>20,144</u>
Creditors			
Amounts falling due within 1 year (note 6)	(50,853)	(53,662)	(53,407)
Derivative financial instruments (note 6)	(10,272)	(5,861)	(6,298)
	<u>(61,125)</u>	<u>(59,523)</u>	<u>(59,705)</u>
Net current liabilities	<u>(19,351)</u>	<u>(26,054)</u>	<u>(39,561)</u>
Total net assets	<u><u>365,391</u></u>	<u><u>267,367</u></u>	<u><u>340,896</u></u>
Capital and Reserves			
Called-up share capital	20,056	20,526	20,263
Share premium	73,738	73,738	73,738
Capital redemption reserve	1,896	1,426	1,689
Capital reserve	267,850	170,044	243,064
Revenue reserve	1,851	1,633	2,142
Shareholders' funds	<u><u>365,391</u></u>	<u><u>267,367</u></u>	<u><u>340,896</u></u>
Net asset value per ordinary share (including income)	455.47p	325.65p	420.58p
Net asset value per ordinary share (excluding income)	455.53p	325.87p	420.19p
Ordinary shares in issue (note 7)	80,223,283	82,103,283	81,053,283

HERALD INVESTMENT TRUST plc

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (unaudited)

For the six months ended 30 June 2010

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2010	20,263	73,738	1,689	243,064	2,142	340,896
Net return on ordinary activities after taxation	-	-	-	27,791	(48)	27,743
Shares bought back [†]	(207)	-	207	(3,005)	-	(3,005)
Dividends paid during the period [#]	-	-	-	-	(243)	(243)
Shareholders' funds at 30 June 2010	20,056	73,738	1,896	267,850	1,851	365,391

For the six months ended 30 June 2009

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2009	20,852	73,738	1,100	109,072	5,948	210,710
Net return on ordinary activities after taxation	-	-	-	63,733	(185)	63,548
Shares bought back [†]	(326)	-	326	(2,761)	-	(2,761)
Dividends paid during the period [#]	-	-	-	-	(4,130)	(4,130)
Shareholders' funds at 30 June 2009	20,526	73,738	1,426	170,044	1,633	267,367

For the year ended 31 December 2009

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2009	20,852	73,738	1,100	109,072	5,948	210,710
Net return on ordinary activities after taxation	-	-	-	140,029	324	140,353
Shares bought back [†]	(589)	-	589	(6,037)	-	(6,037)
Dividends paid during the year [#]	-	-	-	-	(4,130)	(4,130)
Shareholders' funds at 31 December 2009	20,263	73,738	1,689	243,064	2,142	340,896

* The capital reserve as at 30 June 2010 includes investment holding gains of £34,825,000 (30 June 2009 – losses of £69,348,000; 31 December 2009 – gains of £14,807,000).

[†] See note 7

[#] See note 5

HERALD INVESTMENT TRUST plc
CONDENSED CASH FLOW STATEMENT
(unaudited)

	For six months ended 30 June 2010 £'000	For six months ended 30 June 2009 £'000	For year ended 31 December 2009 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,075	2,385	3,729
NET CASH OUTFLOW FROM SERVICING OF FINANCE	(1,422)	(1,436)	(2,871)
FINANCIAL INVESTMENT			
Purchase of investments	(18,175)	(22,766)	(59,037)
Sale of investments	43,014	29,189	55,350
NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENT	24,839	6,423	(3,687)
EQUITY DIVIDEND PAID (note 5)	(243)	(4,130)	(4,130)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	25,249	3,242	(6,959)
FINANCING			
Shares repurchased	(3,005)	(2,761)	(6,037)
NET CASH OUTFLOW FROM FINANCING	(3,005)	(2,761)	(6,037)
INCREASE/(DECREASE) IN CASH	22,244	481	(12,996)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash in period	22,244	481	(12,996)
MOVEMENT IN NET DEBT IN PERIOD	22,244	481	(12,996)
NET DEBT AT 1 JANUARY	(31,449)	(18,453)	(18,453)
NET DEBT AT 30 JUNE/31 DECEMBER	(9,205)	(17,972)	(31,449)
RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Net return on ordinary activities before finance costs and taxation	29,201	65,016	143,312
Gains on investments	(27,702)	(63,573)	(139,718)
Currency gains	(89)	(160)	(311)
Changes in debtors and creditors	621	892	225
Amortisation of fixed income book cost	(1)	(1)	(5)
Income tax repaid/(suffered)	2	4	(1)
Realised currency profit	89	251	311
Overseas tax suffered	(46)	(44)	(84)
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,075	2,385	3,729

HERALD INVESTMENT TRUST plc

TOP TWENTY EQUITY HOLDINGS at 30 June 2010 (unaudited)

Company	Business	Value £'000	% of total assets*
Imagination Technologies Group	Licenser of semiconductor intellectual property	22,874	5.4
SDL	Internet software and website globalisation services	16,815	3.9
Telecom Plus	Supplier of telecommunications services and other utilities	9,289	2.2
Euromoney Institutional Investor	Business-to-business media group focused on international finance sector	7,787	1.8
Phoenix IT Group	IT support and business continuity services	7,673	1.8
Advent Software	Developer of investment management software	7,522	1.8
Group NBT	Provider of domain name registration and internet-related services	7,093	1.7
StatPro Group	Developer of portfolio analytics software	7,088	1.7
Alterian	Developer of analytical marketing software	6,176	1.5
Diploma	Distributor	5,919	1.4
Electrocomponents	Electronic, electrical and industrial distributor	5,764	1.4
Websense	Web and e-mail filtering software	5,622	1.3
Fidessa Group	Developer of trading and portfolio management software	5,194	1.2
M&C Saatchi	Global marketing services business	4,806	1.1
Kofax	Software and solutions to capture and transform business information	4,046	0.9
Radware	Developer of application delivery and network security products	4,003	0.9
Toumaz	RF and ultra low power silicon chip technology	3,939	0.9
Alternative Networks	Provider of telecommunications services in the UK	3,922	0.9
Innovision Research and Technology	RFIC design with focus on Near Field Communications (NFC) and RFID	3,884	0.9
Actel	Supplier of low-power FPGA chips	3,794	0.9
		143,210	33.6

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

DISTRIBUTION OF ASSETS (unaudited)

		At 30 June 2010	At 30 June 2009	At 31 December 2009
		%	%	%
Equities:	United Kingdom	56.1	53.4	56.7
	Continental Europe	1.8	2.5	2.9
	USA	19.5	21.3	22.0
	Asia Pacific	6.3	5.5	7.3
	Emerging Markets	0.4	0.3	0.3
		84.1	83.0	89.2
Fixed interest: Sterling bonds		4.7	5.8	5.0
	US\$ bonds	1.6	2.0	1.6
Net liquid assets		9.6	9.2	4.2
Total assets (before deduction of bank loans and derivative financial instruments)		100.0	100.0	100.0

HERALD INVESTMENT TRUST plc

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (unaudited)

- The condensed financial statements comprise the statements for the six months to 30 June 2010. They have been prepared on the basis of the same accounting policies as set out in the Company's Annual Financial Statements at 31 December 2009 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information.' The Half-Yearly Financial Report has 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.
- The financial information contained within this Half-Yearly Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 December 2009 has been extracted from the statutory accounts which have been filed with the Registrar of Companies and contain an unqualified Auditors' Report and do not contain a statement under sections 498(2) or (3) of the Companies Act 2006.

3. **Related party transactions**

Herald Investment Management Limited are appointed investment managers under a management agreement which is terminable on twelve months' notice. Their 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.

4. Net return per ordinary share	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Revenue return on ordinary activities after taxation	(48)	(185)	324
Capital return on ordinary activities after taxation	<u>27,791</u>	<u>63,733</u>	<u>140,029</u>
Total net return	<u><u>27,743</u></u>	<u><u>63,548</u></u>	<u><u>140,353</u></u>
Weighted average number of ordinary shares	<u><u>80,745,769</u></u>	<u><u>82,809,374</u></u>	<u><u>82,397,262</u></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	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Amounts recognised as distributions in the period:			
Final dividend for the year ended 31 December 2009 of 0.30p (2008 - 1.55p) paid 29 April 2010	243	1,280	1,280
Special dividend (2008 - 3.45p)	-	2,850	2,850
	<u><u>243</u></u>	<u><u>4,130</u></u>	<u><u>4,130</u></u>

No interim dividend will be declared.

HERALD INVESTMENT TRUST plc

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (unaudited) (continued)

6. The Company has a £50 million multi-currency variable rate loan facility with The Royal Bank of Scotland plc which comprises two £25 million tranches expiring on 31 May 2011 and 2013 (30 June 2009 - £75 million; 31 December 2009 - £75 million). A £25 million facility expired on 31 May 2010. The interest on this facility has been fixed for the long term through a 30 year interest rate swap but may vary on periodic renewals to the extent that the mark up over LIBOR charged by a lending bank varies. At 30 June 2010 there were outstanding drawings of £50 million (30 June 2009 - £50 million; 31 December 2009 - £50 million). The fair value of the liabilities in respect of the interest rate swap contract at 30 June 2010 was a liability of £10,272,000 (30 June 2009 - £5,861,000; 31 December 2009 - £6,298,000) which was based on the marked to market value.
7. At the Annual General Meeting held on 21 April 2010 the Company's authority to buy back shares was renewed in respect of 12,115,410 ordinary shares (equivalent to 14.99% of its issued share capital at that date). In the six months to 30 June 2010 a total of 830,000 ordinary shares with a nominal value of £207,500 were bought back at a total cost of £3,005,000. At 30 June the Company had authority to buy back a further 11,515,410 ordinary shares.
8. During the period transaction costs on purchases amounted to £82,000 (30 June 2009 - £158,000; 31 December 2009 - £339,000) and transaction costs on sales amounted to £209,000 (30 June 2009 - £69,000; 31 December 2009 - £141,000).
9. **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), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 21 of the Company's Annual Report and Financial Statements for the year to 31 December 2009. 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 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).
10. The Half-Yearly Financial Report will be available on the Managers' website www.heralduk.com and will be posted to shareholders on or around 12 August 2010.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.