

HERALD INVESTMENT TRUST plc

REPORT & ACCOUNTS

31 December 2002

CONTENTS

1	Company Summary
2	Year's Summary
3	Long Term Performance Summary
4	Directors, Manager and Advisers
5	Chairman's Statement
	Portfolio Review
6	Investment Manager's Report
9	Top Twenty Holdings
12	Classification of Investments
12	Geographical Spread of Investments
13	Detailed List of Investments
18	Long Term Record
19	Directors' Report
22	Statement of Directors' Responsibilities
23	Directors' Remuneration Report
25	Corporate Governance
27	Independent Auditors' Report
28	Statement of Total Return
29	Balance Sheet
30	Cash Flow Statement
31	Notes to the Accounts
39	Notice of Annual General Meeting
40	Further Shareholder Information

COMPANY SUMMARY

COMPANY DATA AT 31 DECEMBER 2002

Total assets†	Shareholders' funds	Market capitalisation
£200m	£178m	£152m

† before deduction of long and short term borrowings.

Policy and Objective Herald's objective is to achieve capital appreciation through investments in smaller quoted companies, in the areas of communications and multi-media. Investments will be made throughout the world but at least 50% of the portfolio will be invested in the UK and Europe. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies.

Benchmark The portfolio benchmark against which performance is measured is $\frac{2}{3}$ Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies) and $\frac{1}{3}$ Russell 2000 (small cap) Technology Index (in sterling terms).

Management Details Herald Investment Management Limited ('HIML') is the appointed investment manager to the Company. The management contract can be terminated at twelve months notice. Administration of the Company and its investments is contracted by HIML to Baillie Gifford & Co., who also act as company secretary.

Capital Structure The Company's share capital consists of 84,475,145 ordinary shares of 25p each which are issued and fully paid.
There are also 3,332,204 Warrants which are exercisable at 100p each on 30 April 2003, which is the final subscription date.

Management Fee Herald Investment Management Limited's annual remuneration is 1.0% of the Company's net asset value, calculated on a monthly basis payable in arrears.

Wind-Up The Company's Articles of Association require the Directors to propose an ordinary resolution at the Annual General Meeting of the Company in 2004 (and at every third subsequent Annual General Meeting) proposing that the Company will continue to operate as an investment trust company.

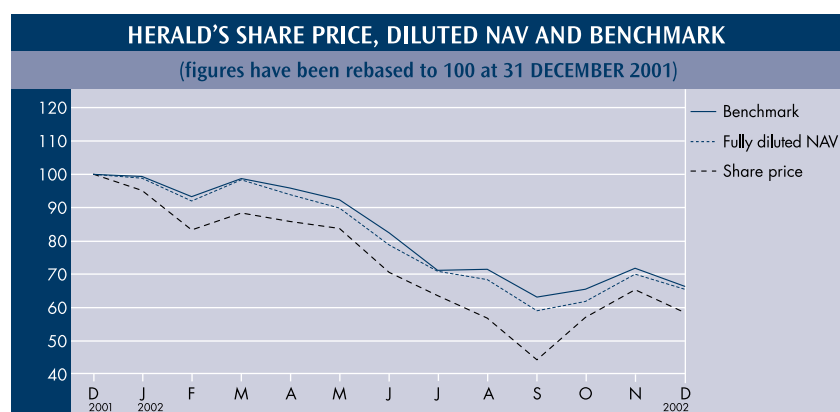
AITC The Company is a member of the Association of Investment Trust Companies.

YEAR'S SUMMARY

	31 December 2002	31 December 2001	% change
Total assets (before deduction of bank loans)	£199.9m	£275.6m	
Bank loans	£22.3m	£2.9m	
Equity shareholders' funds	£177.6m	£272.7m	(34.9)
Net asset value per ordinary share	210.2p	322.9p	(34.9)
Diluted net asset value per ordinary share (FRS 14)	206.7p	314.5p	(34.3)
Fully diluted net asset value per ordinary share	206.0p	314.4p	(34.5)
Share price	177.0p	306.0p	(42.2)
Warrant price	79.0p	212.5p	(62.8)
FTSE 100	3,940.4	5,217.4	(24.5)
FTSE All-Share	1,893.7	2,523.9	(25.0)
FTSE Small Cap	1,820.6	2,579.2	(29.4)
Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies)	1,693.9	2,283.4	(25.8)
Russell 2000 (small cap) Technology Index (in sterling terms)	49.6	102.1	(51.4)
Benchmark composite index			(34.3)
Dividend per ordinary share	0.85p	0.85p	–
Earnings per ordinary share (basic)	0.74p	1.36p	(45.6)
Expense ratio	1.21%	1.07%	
(Discount)/premium (to basic net asset value)	(15.8%)	(5.3%)	
(Discount)/premium (to diluted net asset value (FRS14))	(14.4%)	(2.7%)	

Year's high and low (on month end values)	Year to 31 December 2002		Year to 31 December 2001	
	High	Low	High	Low
Share price	306.0p	133.0p	495.0p	218.5p
Warrant price	212.5p	45.0p	394.5p	125.0p
Net asset value	322.9p	189.2p	470.3p	246.6p
Fully diluted net asset value	314.4p	185.8p	453.7p	240.1p
(Discount)/premium (to fully diluted net asset value)	(2.7%)	(28.4%)	13.7%	(11.6%)

	31 December 2002	31 December 2001
Total return per ordinary share (basic)		
Revenue	0.74p	1.36p
Capital	(112.55p)	(123.01p)
Total	(111.81p)	(121.65p)



Source: Thomson Financial Datastream.

*2/3 Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies) and
1/3 Russell 2000 (small cap) Technology Index (in sterling terms).

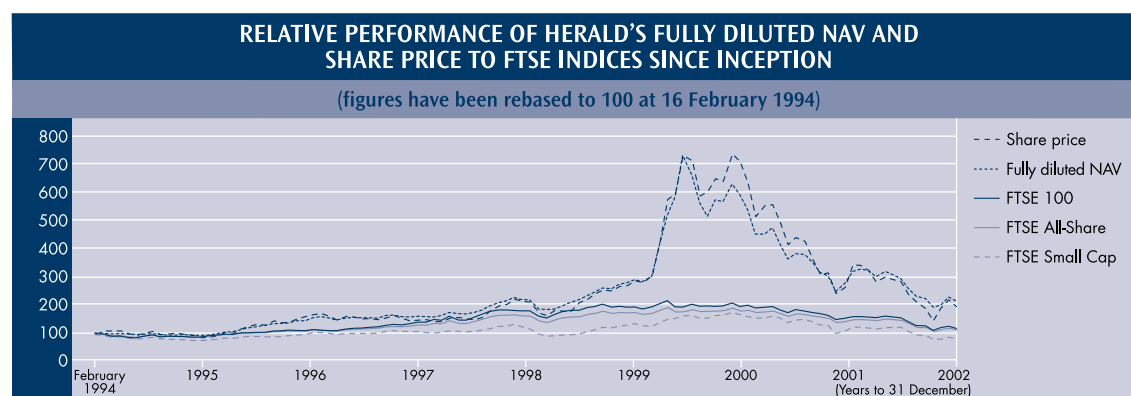
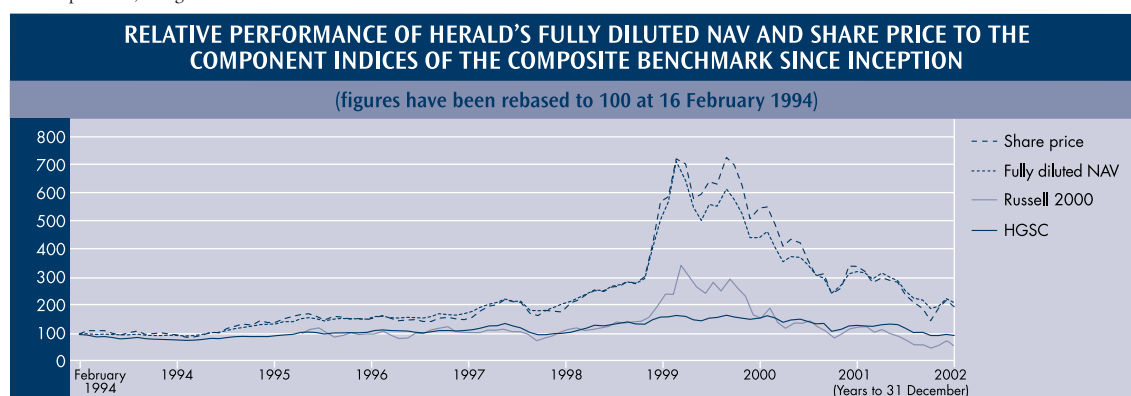
Dividends are not reinvested.

LONG TERM PERFORMANCE SUMMARY

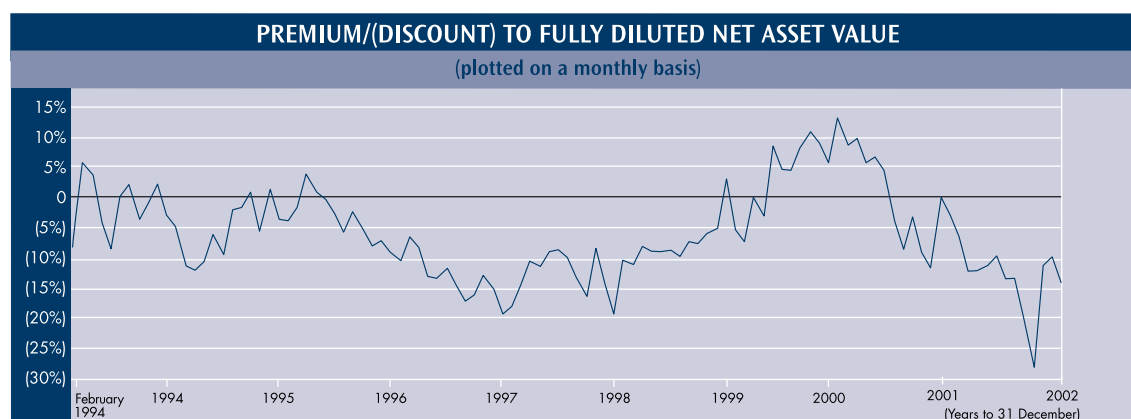
The following charts indicate how an investment in Herald has performed relative to its comparative indices (applied retrospectively) and its underlying fully diluted net asset value over the period since inception of the Company.

	31 December 2002	Inception 16 February 1994	% change
Fully diluted net asset value per ordinary share	206.0p	98.7p	108.7
Share price	177.0p	90.9p	94.7
Hoare Govett Smaller Companies Index <small>(extended capital gains ex. investment companies)</small>	1,693.9	1,750.0	(3.2)
Russell 2000 (small cap) Technology Index <small>(in sterling terms)</small>	49.6	83.2*	(40.4)
FTSE 100	3,940.4	3,417.7	15.3
FTSE All-Share	1,893.7	1,717.8	10.2
FTSE Small Cap	1,820.6	2,076.1	(12.3)

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



Source: Thomson Financial Datastream



Source: Thomson Financial Datastream

The premium/(discount) is the difference between Herald's quoted share price and its underlying fully diluted net asset value.

DIRECTORS, MANAGER AND ADVISERS

Directors

Martin Boase, MA, FIPA (Chairman), aged 70, formed advertising agency Boase Massimi Pollitt plc in 1968 which was floated on the London Stock Exchange in 1983. He was chairman of the Advertising Association from 1987 to 1992 and is currently chairman of The Maiden Group plc, Heal's plc, The Investment Trust of Investment Trusts PLC and Jupiter Dividend and Growth Investment Trust PLC.

Clay Brendish, CBE, aged 55, was appointed to the Board on 23 July 2001. He has been in the computer systems environment and high technology industry for over 30 years. He was formerly Executive Chairman of Admiral plc and, in turn, Deputy Chairman of CMG plc when the companies merged, he has also held a number of Government advisory posts. He is a trustee of the Economist Newspapers Limited, a member of the Independent Television Commission, a council member of the City University of London and is President of the Institute of Management.

Justin Dukes, aged 61, is chairman of ECIC Management Limited, Intelmedia Limited and Intelfax Limited and is a director of VTR plc. He was the founding managing director of Channel Four Television and joint managing director of the Financial Times Group. He is a former president of the Institute of Information Scientists and is a Companion of the Institute of Management.

Colin McCarthy, FCA, MCT, aged 65, joined Bowthorpe plc (now Spirent plc, the international network technology company) in 1962, and was financial director from 1982 until his retirement in 1999.

Douglas McDougall, OBE, aged 58, was appointed to the Board on 13 February 2002. He has extensive experience in the fund management industry and is a former senior partner of Baillie Gifford & Co. He is chairman of The Law Debenture Corporation plc, Foreign & Colonial Eurotrust PLC, The Independent Investment Trust PLC, Pacific Horizon Investment Trust PLC and 3i Bioscience Investment Trust plc. He is a former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association.

Clive Parritt, FCA, aged 59, is chief executive of The Business Exchange plc (a leading independent corporate finance house). He is a member of the Council of the Institute of Chartered Accountants in England and Wales.

He is chairman of a number of Venture Capital Trusts including Baronsmead VCT2 plc and Downing Classic VCT plc. He was, until February 2001, chairman of Baker Tilly, Chartered Accountants, having been its national managing partner for 10 years until June 1996. He has over 25 years' experience of providing financial and commercial advice to smaller and medium sized businesses in a wide range of industries.

Secretary

Baillie Gifford & Co.
1 Rutland Court
Edinburgh EH3 8EY
Tel: 0131 222 4000

Registered Office

12 Charterhouse Square
London EC1M 6AX

Company Number

2879728 (England and Wales)

Manager

Herald Investment Trust plc is managed by Herald Investment Management Limited. The senior director of HIML with prime responsibility for the management of Herald Investment Trust is Katie Potts.

Katie Potts

Herald Investment Management Limited
12 Charterhouse Square
London EC1M 6AX
Tel: 020 7553 6300
Fax: 020 7490 8026
Web-site: www.heralduk.com
E-mail: info@heralduk.com

Advisers

Solicitors

Macfarlanes
10 Norwich Street
London EC4A 1BD

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Bankers

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

Stockbroker

Cazenove & Co. Ltd
12 Tokenhouse Yard
London EC2R 7AN

Registrars

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 600 900
Fax: 01484 600 911

CHAIRMAN'S STATEMENT

The de-rating that began as the speculative period peaked in March 2000 continued throughout 2001 and into 2002. It is therefore disappointing to report a decline in net assets per ordinary share of 34.9%, albeit after a maintained dividend of 0.85p. Although this decline was worse than the Hoare Govett Smaller Companies Index (down 25.8%), it was much less than the technology indices. The Russell 2000 Technology Index is the most relevant in the US and was down 51.4% in sterling terms, while the Techmark 100 index in the UK was down 55.9%. However, it is noticeable that in the second half the decline in the Trust assets overall and within the UK was lower than the Hoare Govett Smaller Companies Index. This reflects the "bear" market broadening to sectors outside TMT.

More importantly there was a shock wave through the sector in the second half of 2001 and the first half of 2002 as earnings expectations declined in most companies in the Trust's orbit, but for the last six months there has been much more stability in trading expectations. Meanwhile the average p/e of the investee companies in the portfolio is at the lower end of the long term range while interest rates are low. With this background the Board supported the Manager's request to gear up the Trust, in net terms, for the first time since inception in 1994. A US\$ based loan of c£20m was therefore in place in the first week of November at a rate of c2% for one year. This represents a considerably more positive stance than the cash and gilts held at the start of the year of c£45m. In order to provide greater flexibility in this gearing strategy, the Board is further recommending an increase in the maximum amount the Trust can borrow and is seeking shareholder approval to amend the Articles of Association, by way of Special Resolution, to increase the maximum level of gearing from the current level of 20% to 30% of shareholders' funds. Details of the Special Resolution can be found in the Notice of Annual General Meeting on page 39. The Manager's fees are based on shareholders' funds, in line with the historic policy.

The income statement has been adversely affected by the progressively reducing levels of cash and gilts through the year, which generated a higher income than the yield on equities. Although the decline was partially offset by lower costs, this has still led to a decline in profits. However, the decision has been made to maintain the dividend, although it is not quite covered by profits, because many investments in the portfolio have a progressive dividend policy, while others are paying a dividend for the first time. This should lead to a more favourable income line in 2003. Capital gain remains the Trust's objective. The remaining warrants that were issued when the Trust was launched can be exercised for the last time in April.

Although the decline in assets is obviously disappointing, the Manager has maintained a cautious stance for a long time, which has enabled the Trust to deliver a strong performance relative to its specialist peers. This also makes it the more exciting now that the Manager's stance is so much more positive. At the smaller end there are now some unjustifiably low valuations in the UK, which retail and professional investors alike are currently unwilling to correct. There will inevitably be corporate activity if investors do not adjust valuations upwards. In the US valuations are not as anomalous, the recovery in trading seems more evident and the number of quality companies is enviable. Although superficially there is less intrinsic value in US there is a vibrant investor base, much more confidence and so many more really interesting companies.

There remain macro uncertainties at economic, political and military levels, which continue to affect market sentiment. We are optimistic that value at the micro level will offset these legitimate concerns.

Martin Boase

Chairman

12 February 2003

INVESTMENT MANAGER'S REPORT

It continued, unfortunately, to be an unrewarding environment in 2002, for equity investors in general, and for Herald's target sector in particular. However, in some ways if there was irrational exuberance in 2000, we have moved to a period which discounts almost nothing by way of growth. There is a stark anomaly between the pessimism of valuations, and the optimism of economic forecasts. Valuations reflect an expectation that profits and dividends are to some extent unsustainable, while economists, and the Chancellor in particular, forecast reasonably strong economic growth. There is an inconsistency here. In reality the outcome may end up somewhere between the two. At the micro level there is an increasing chance of making exceptional returns from companies serving immature markets, which can grow strongly against a lack lustre economic background. I reiterate the market has gone from unrealistically high growth expectations to virtually no growth expectations. It is difficult in the short term to make returns in such markets, but it does provide exceptional long term opportunities that a more efficient short term market would preclude.

Since 11 September there has been a two speed economy with consumer spending holding up to a surprising degree in both the UK and the US, and corporate capital expenditure stalling everywhere. In the UK Government spending has been conspicuously more robust than in the private sector, high gross margin software product companies being particularly hard hit by the downturn in corporate capital expenditure. Financial services, telecommunications and the disappearance of venture funded "internet start-ups" have been conspicuous in collapsing their capital expenditure budgets and their advertising ones. In contrast DVD players are walking off the shelves. The US dominates in the IT industry, and this sector has been particularly hard hit by the squeeze in capital expenditure. It is not surprising that the US stocks have been hit hard in spite of the US economy being the most robust of the major economies this year.

Portfolio performance attribution for the 12 months to 31 December 2002.

Performance is computed relative to a customised benchmark: $\frac{2}{3}$ Hoare Govett Smaller Companies Index (extended capital gains ex. investment companies) and $\frac{1}{3}$ Russell 2000 (small cap) Technology Index (in sterling terms) with net income reinvested.

PERFORMANCE ATTRIBUTION (in sterling terms)								
	Benchmark	Herald		Performance*		Contribution to relative return	Contribution attributable to:	
	allocation	asset allocation		Herald	Benchmark		Stock selection	Asset allocation
	01.01.02	01.01.02	31.12.02	Herald	Benchmark		return	selection
Equity markets	%	%	%	%	%	%	%	%
UK	66.7	51.5	70.6	(31.3)	(23.3)	(7.3)	(5.2)	(2.2)
Europe ex. UK	–	5.6	7.0	(39.4)	–	(0.8)	–	(0.8)
Americas	33.3	22.0	20.4	(56.2)	(51.4)	0.9	(2.2)	3.1
Japan	–	0.2	0.6	20.9	–	0.1	–	0.1
Asia Pacific ex. Japan	–	5.8	9.2	(24.2)	–	0.5	–	0.5
Bonds	–	9.7	–	4.5	–	4.8	–	4.8
Cash	–	6.3	4.7	0.1	–	0.4	–	0.4
Loans	–	(1.1)	(12.5)	–	–	(0.1)	–	(0.1)
Total	100.0	100.0	100.0	(33.9)	(32.6)	(1.9)	(7.3)	5.8

Source: HSBC.

* The above returns are calculated on a total return basis with net income reinvested.

Contributions cannot be added together, as they are geometric; for example, to calculate how a return of (33.9%) (against a benchmark of (32.6%)) translates into a relative return of (1.9%), divide the portfolio return of 66.1 by the benchmark return of 67.4 and subtract one.

INVESTMENT MANAGER'S REPORT *continued*

UK

It is deeply disappointing that interest in the emerging sectors in the UK so quickly developed into a speculative bubble. This has probably destroyed wealth via the damage inflicted on established companies such as Marconi, with misguided acquisition and disposal programmes, more than wealth has been created in emerging companies. There is now, again, a depressing absence of world class companies in the technology arena, albeit there are some pharmaceutical companies, which are not in the Herald remit. There are also some media stocks which still count on a world stage. The worry is that this lack of critical mass in the technology sector limits the investor focus that a complex sector needs, and will potentially limit the supply of capital. There are now a number of companies, which trade on the stock market at a value similar to or even below their cash levels, illustrating either simplistic pessimism, or that the return on effort to understand the fundamentals is uncommercial. Equally it is hard to justify putting up primary capital when valuations are so low in the secondary market.

The Techmark 100 declined 55.9% last year; the FTSE-IT Index declined a staggering 66.8%, and the FTSE-Media index fell by 32.7%. However, the most relevant indices to Herald are the returns of the sectors within the Hoare Govett Index as follows:–

	% weight in index	% decline (total return)	weighted decline
Electronic & Electrical Equipment	2.78	–39.8%	–6.3%
Media and Photography	6.01	–30.5%	–10.4%
Information Technology Hardware	1.86	–57.4%	–6.1%
Software and Computer Services	5.79	–53.9%	–17.8%
Telecommunication Services	1.14	–55.8%	–3.6%
	<hr/>		<hr/>
Total	17.58		–44.2%
	<hr/> <hr/>		<hr/> <hr/>

This compares with a time weighted total return of –31.3% in Herald's UK portfolio which reflects the relatively cautious approach to stock selection. It does also include three particularly expensive errors, which each accounted for a loss of over £3m, where belief in the management proved a mistake.

US

Nasdaq declined 31.5%, the Russell 1000 Technology Index declined 38.9% and the most relevant Russell 2000 Smaller cap Technology index declined 46.2%. In addition US\$ fell relative to £ from \$1.455 to \$1.610, so in £ terms the returns are even worse. The time weighted return on Herald's US portfolio is –56.2% which is disappointingly no better than the index. There was very good value in certain stocks in August-October, and a strong fourth quarter rally reduced losses. US companies are more stock market driven than anywhere, and management reacted conspicuously more to the downturn in demand, leading to aggressive cuts in labour, capital expenditure and advertising budgets. There are also more tangible signs of the cycle being ahead in the US with a number of companies reporting quarterly figures that are sequentially better, particularly as cost cutting benefits have come through. There is also evidence of media buying improving, and short lead-time corporate capital expenditure items, such as storage, improving.

Sentiment this year has been adversely impacted at the macro level by the high profile scandals such as Enron and WorldCom in particular. From the micro perspective it is ironic when US GAAP invariably provides the most conservative numbers, 10-Qs the most disclosure, and

INVESTMENT MANAGER'S REPORT *continued*

when Class actions against incumbent management are prevalent, the US is still by far the most open and shareholder friendly environment in which to invest. The most worrying aspect about the US is the high level of consumer indebtedness. Overall the recovery in corporate capital expenditure, and the sound economic and regulatory framework ought to offset the consumer weakness, and provide a more favourable investment background in 2003.

Europe

Europe continued to be difficult. The Neuer Markt declined a further 63.1% in 2002 leading to its demise. The Nouveau Marche has been similar. The Trust's performance is not as bad at -39.4%. We have spent more time in Europe this year, but the economies remain difficult, and the markets technically weak.

Far East

The Asian exposure held up in the first half, but weakened in the second half, so that the overall return was down c22%. The Far East is heavily exposed to manufacturing and large volume markets such as PCs are very competitive, and volumes flat. The Far East is gaining share in mobile telephones – a trend that is likely to continue. The best contributor in the Herald Far East portfolio was, ironically, a media company, which publishes newspapers in Malaysia.

Outlook

There continue to be macro concerns at the political level, but there is extremely interesting value amongst smaller companies. In the absence of an increased allocation from institutions, a widespread rerating will not occur imminently, but it would be surprising if there is not more acquisition activity, which will be at prices considerably above market levels. We are already aware of bid activity within the portfolio. In spite of the uncertainties we look forward with greater confidence than we have had at any time since the Asian crisis provided such a good buying opportunity in Autumn 1998.

12 February 2003

INVESTMENT CHANGES (£'000)				
	Valuation at 31 December 2001	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 December 2002
Equities:				
UK	140,629	33,408*	(48,236)	125,801
Continental Europe	15,710	5,002	(7,906)	12,806
Americas	59,993	12,835	(36,449)	36,379
Japan	520	532	(59)	993
Asia Pacific	15,669	3,928*	(3,588)	16,009
	232,521	55,705	(96,238)	191,988
UK bonds	26,380	(27,109)	729	–
Total investments	258,901	28,596	(95,509)	191,988
Net liquid assets	16,723	(8,665)	(146)	7,912
Total assets	275,624	19,931	(95,655)	199,900

*As a result of the takeover of Keystone Software by Solution 6 the holding has been transferred from United Kingdom to Asia Pacific. The market value of the holding in Keystone Software at the date of takeover of £471,000 (book cost – £1,678,000) has been included within the disposals and acquisitions figures respectively.

The figures above for total assets comprise assets less current liabilities before deduction of bank loans.

TOP TWENTY HOLDINGS

A brief description of the twenty largest holdings in companies is as follows:

Acal

Acal is a leading value-added distributor providing specialist design-in, sales and marketing services for international suppliers in the fields of Electronic Components, IT Products, IT Parts Services and Industrial Controls. The Group, which has 24 principal trading companies, eleven in Continental Europe, eleven in the UK, one in the USA and one in Australia, employs approximately 990 people with particularly strong technical sales and marketing expertise.

Country	United Kingdom
Valuation	£6,031,000
% of total assets	3.0
% of issued share capital held	4.6

Alba

Alba's principal activities is the manufacture, supply, import, export and distribution of audio, video, telecommunications and consumer electronic equipment. It also supplies giftware product ranges to the high street and supermarkets. It has a number of brands in its portfolio including Alba, Bush and Goodmans.

Country	United Kingdom
Valuation	£4,845,000
% of total assets	2.4

SurfControl

The Group's principal activity is the development of web and e-mail filtering and content management software. Its main brands were SurfControl Superscout which was sold to the corporate market and CyberPatrol which was directed at the education and home markets. SurfControl is now the single brand for all server based web and e-mail filtering products sold into the corporate and education markets. CyberPatrol is the brand for client-based products sold into the home market.

Country	United Kingdom
Valuation	£4,378,000
% of total assets	2.2
% of issued share capital held	3.6

Northgate Information Solutions

Northgate Information Solutions is a leading supplier of applications and outsourcing solutions to the public sector, HR and corporate markets, with over 1,000 customers and 30 years' experience. Headquartered in Hemel Hempstead, Northgate has over 900 staff operating throughout the UK and in California, USA.

Country	United Kingdom
Valuation	£4,030,000
% of total assets	2.0
% of issued share capital held	5.4

Azlan Group

Azlan is the leading pan-European networking solutions group distributing products from a growing number of manufacturers such as Cisco Systems, Microsoft, Nortel Networks, Alcatel and Enterasys. The Group focuses on the three core business areas of networking and communications products, services and training. Azlan has operations across 15 European countries – Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK. Azlan has over 1,400 staff with a ratio of 1:1 technical to sales personnel across the Group.

Country	United Kingdom
Valuation	£3,927,000
% of total assets	2.0
% of issued share capital held	3.1

Plasmon

Plasmon provides the industry's most comprehensive line of automated storage libraries, optical drives, disks, library storage management software and associated support services. Technologies include 5.25" Magneto Optical, 12-inch TrueWORM, LTO-Ultrium/AIT Tape and 120mm DVD/CD technology. Manufacturing operations for media and software products are based at the United Kingdom headquarters in Cambridge. Drives, libraries and associated robotics are developed and manufactured at Plasmon's ISO-9001 certified facilities in Colorado Springs, Colorado, with US Sales and Marketing headquarters in Denver, Colorado. Plasmon is developing Ultra Density Optical (UDO) with expected release in Q3, 2003. UDO is the next generation 5.25" professional optical storage technology. It is a convergent technology that delivers the performance of 5.25" MO, the longevity of 12-inch WORM, and the cost effectiveness of DVD.

Country	United Kingdom
Valuation	£3,585,000
% of total assets	1.8
% of issued share capital held	6.2

Linx Printing Technologies

Linx has leading global positions in the two main non-contact coding and marking technologies: continuous inkjet printing and laser coding. Linx continuous inkjet printers operate at extremely high production-line speeds, directing 80,000 drops of fast-drying ink per second on all sorts of surfaces, e.g. Linx continuous inkjet printers can print a sell-by date on up to 2,000 beverage cans per minute. As it is permanent, laser coding is favoured by makers of prestige products, such as champagne, where it helps protect against counterfeiting.

Country	United Kingdom
Valuation	£3,448,000
% of total assets	1.7
% of issued share capital held	9.9

TOP TWENTY HOLDINGS *continued*

Diploma

Diploma is a group of specialised distribution businesses serving industries with long-term growth potential and with the opportunity for sustainable superior margins through the quality of customer service, depth of technical support and value-adding activities. The three divisions are life sciences, seals and components, and interconnect.

Country	United Kingdom
Valuation	£3,333,000
% of total assets	1.7
% of issued share capital held	4.7

Euromoney Institutional Investor

The Group's principal activity is business publishing that focuses primarily on international finance. It publishes more than 100 magazines, newsletters and journals as well as surveys, directories, books and maps. It also runs conferences, seminars and training courses and provides electronic business information through its capital market databases emerging markets information service. Financial publishing accounted for 38% of fiscal 2002 revenues; conferences and seminars, 21%; business publishing, 21%; training, 12% and databases and information services, 8%.

Country	United Kingdom
Valuation	£3,198,000
% of total assets	1.6

Biotrace International

The Group's principal activities are the development, manufacture, market and sale of a range of instruments and reagent kits for rapid hygiene and microbiological testing, in the food, industrial, defence and healthcare markets. The Group provides sophisticated equipment for civil defence and for the protection of military personnel against such threats. Food safety accounted for 63% of 2001 revenues; civil defence and military, 25%; industrial and environmental, 10% and healthcare, 2%.

Country	United Kingdom
Valuation	£3,132,000
% of total assets	1.6
% of issued share capital held	9.6

Detica Group

Detica Group Plc is a specialty provider of business consulting, systems design and implementation services. The Company focuses on helping organizations harness technology to identify, attract, develop and retain customers through effective integration with business processes. The Company is also a provider of information and systems security services, helping organizations protect their information and systems assets, as well as detecting fraudulent activity. Detica aims to combine independent advice with the design and delivery of effective solutions.

Country	United Kingdom
Valuation	£3,132,000
% of total assets	1.6
% of issued share capital held	3.9

OneSource Information Services

OneSource Information Services Inc. provides primarily Web-based business and financial information products to professionals who need quick access to timely and reliable company, industry and market intelligence. OneSource's primary products, the OneSource Business Browser products, are password-protected, subscription-based products that provide sales, marketing, finance and management professionals and consultants with industry and company profiles, research reports, media accounts, executive listings and biographies, and financial information on over one million public and private companies. OneSource also distributes its CorpTech high-technology company database as part of the Business Browser product line, as part of CD ROMs, and through third-party distributors.

Country	United States
Valuation	£3,040,000
% of total assets	1.5
% of issued share capital held	5.4

Ambient

The Group's principal activities are the provision of Internet services, local information portals, multi function smart card, and digital audiovisual systems to major retailers and transport locations. It also provides Internet-delivered and independent market intelligence, with a portfolio of online news risk assessment services. The Group supplies convenience cash machines in the UK, which deploys in convenience stores, pubs, clubs, petrol stations, transport locations and military bases. ATM operations accounted for 59% of fiscal 2002 revenues; business intelligence, 22%; digital media solutions, 13%; and marketing and web services, 6%.

Country	United Kingdom
Valuation	£3,011,000
% of total assets	1.5
% of issued share capital held	8.3

Taylor Nelson Sofres

The Group's principal activity is the provision of market information services. The Group provides continuous, syndicated and custom research and analysis from more than 230 offices in over 50 countries in Europe, the Americas and Asia Pacific in over 80 countries. The Group also provides market measurement, analysis, insight and innovative business solutions. Branded solutions include, Needscope System, Optima, The Conversion Model, The Buy Test, MarketWhys, Miriad, and TNS Interactive.

Country	United Kingdom
Valuation	£2,972,000
% of total assets	1.5

TOP TWENTY HOLDINGS *continued*

Project Telecom

Project Telecom is one of the UK's leading independent Telecoms Brokers. They aim to offer competitive rates for voice, data and fax over fixed and mobile telephones to businesses, and are able to offer a complete service from a multitude of suppliers.

Country	United Kingdom
Valuation	£2,793,000
% of total assets	1.4

Star Publications

The Star (daily) and Sunday Star are Malaysia's most widely-read English-language daily and Sunday newspapers. They are published in four editions – two editions which cover the northern peninsular states of Penang, Kedah, Perlis and northern Perak while the other two editions cover the rest of the country.

Country	Malaysia
Valuation	£2,736,000
% of total assets	1.4

Alphameric

Alphameric plc is engaged in the supply of solutions to retail, leisure and financial organizations worldwide. With skills in a wide range of areas including consultancy, software development, business intelligence, project management, installation, support services and help desks, the Company provides solutions to organizations throughout Europe and the United States. Alphameric Retail offers products that can form part of a fully integrated system or operate independently in the areas of head office, in-store and business intelligence. Alphameric Leisure and Bookmaking supplies integrated systems and services covering the operational requirements of United Kingdom Licensed Betting Offices, including centrally controlled Display, Slip Capture and EPoS Systems. Alphameric Finance provides solutions covering the digital distribution of corporate information via satellite to the provision of private television networks for financial organizations.

Country	United Kingdom
Valuation	£2,704,000
% of total assets	1.4
% of issued share capital held	5.1

Scottish Radio Holdings

SRH is the largest commercial radio operator in Scotland and Northern Ireland, both in terms of audience reached, and in the number of stations owned. In 2001 the company announced its expansion into the English market with its acquisition of the outstanding 60% of the shares in CFM (Carlisle and Cumbria), and its purchase of the regional station in the south of England, Wave 105. The Company also announced it had acquired the shareholding it did not previously own in Today FM, Ireland's National station. The press division concentrates on local weeklies (mainly paid for) where strong franchises had been established in clearly defined communities over a number of years. The group's first newspaper acquisition came in Northern Ireland with the purchase of Morton Newspapers, the largest local weekly newspaper publisher in the north. Over the coming years this base was built upon, and the company now publishes some 43 titles in Scotland, Northern Ireland and the Republic of Ireland. Printing has been centralised at presses in Forfar, Kilkenny, and at Carn, Portadown.

Country	United Kingdom
Valuation	£2,681,000
% of total assets	1.3

NRJ Group

NRJ Group is a leading French radio broadcaster. The Company operates four radio networks in France: NRJ, Nostalgie, Cherie FM and Rire & Chansons. Its target audience groups include housewives under 50, purchasing managers under 50, families with children and high-income earners, which are attractive to advertisers. The Company also expanded its business in Europe, operating radio stations in Germany, Finland, Norway, Denmark and Sweden.

Country	France
Valuation	£2,344,000
% of total assets	1.2

Telemetrix

The Group's principal activities are carried out through two divisions: Zetex: supplies analog semiconductor solutions for signal and power management, with particular emphasis on portable applications. Trend: offers broadband test equipment and support services to the digital communications market. Analog semiconductors accounted for 55% of 2001 revenues and broadband test equipment and enterprise network services, 45%.

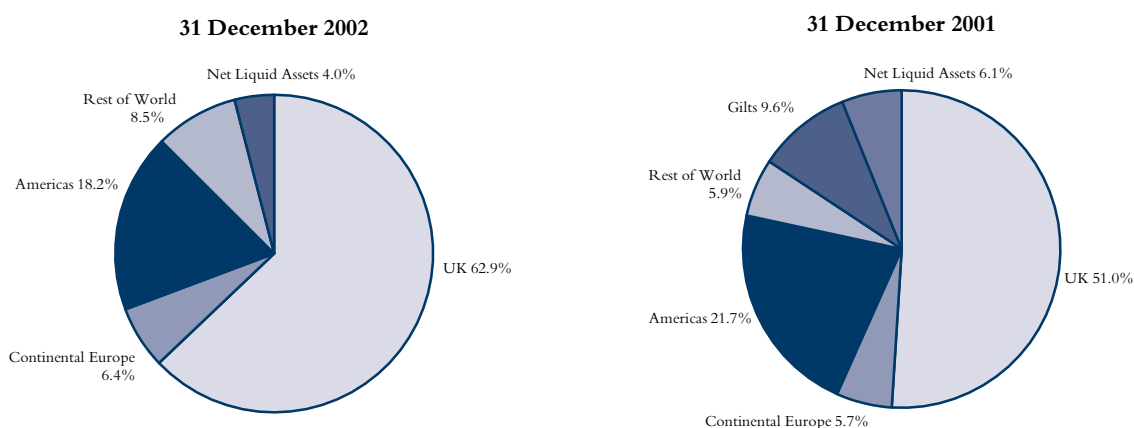
Country	United Kingdom
Valuation	£2,309,000
% of total assets	1.2
% of issued share capital held	3.6

Note: A figure is presented for % of issued share capital held only if greater than 3%.

CLASSIFICATION OF INVESTMENTS

Classification	Continental					2002 Total %	2001 Total %
	UK %	Europe %	Americas %	Japan %	Asia Pacific %		
EQUITIES: (including convertible and preference stock)							
INDUSTRIALS	5.5	1.3	1.8	0.5	2.5	11.6	12.7
Electronic and electrical equipment	5.5	1.3	1.8	0.5	2.5	11.6	12.7
CONSUMER GOODS	1.6	–	0.2	–	–	1.8	1.9
Healthcare and pharmaceuticals	1.6	–	0.2	–	–	1.8	1.9
SERVICES AND UTILITIES	28.2	2.7	4.1	–	3.4	38.4	30.9
Distributors	6.5	–	0.8	–	0.4	7.7	6.0
Leisure, entertainment and hotels	0.7	–	0.2	–	–	0.9	0.6
Media and photography	15.8	1.9	1.2	–	2.9	21.8	18.1
Support services	2.8	0.8	1.9	–	–	5.5	4.7
Telecommunication services	2.4	–	–	–	0.1	2.5	1.5
FINANCIALS	0.1	0.1	–	–	–	0.2	0.3
Speciality and other finance	0.1	–	–	–	–	0.1	0.1
Investment companies	–	0.1	–	–	–	0.1	0.2
INFORMATION TECHNOLOGY	27.5	2.3	12.1	–	2.1	44.0	38.5
Information technology hardware	5.5	1.0	4.5	–	1.7	12.7	8.8
Software and computer services	22.0	1.3	7.6	–	0.4	31.3	29.7
TOTAL EQUITIES (including convertible and preference stock)	62.9	6.4	18.2	0.5	8.0	96.0	
Total equities – 2001 (including convertible and preference stock)	51.0	5.7	21.7	0.2	5.7		84.3
GILTS	–	–	–	–	–	–	9.6
NET LIQUID ASSETS	3.4	–	–	–	0.6	4.0	6.1
TOTAL ASSETS (before deduction of bank loans)	66.3	6.4	18.2	0.5	8.6	100.0	
Total assets – 2001	66.3	5.7	21.7	0.2	6.1		100.0
BANK LOANS	–	–	(9.7)	(1.5)	–	(11.2)	(1.0)
EQUITY SHAREHOLDERS' FUNDS	66.3	6.4	8.5	(1.0)	8.6	88.8	
Equity shareholders' funds – 2001	66.3	5.7	21.7	(0.8)	6.1		99.0
Number of equity investments (including convertible and preference stock)	118	20	76	2	28	244	222

GEOGRAPHICAL SPREAD OF INVESTMENTS



DETAILED LIST OF INVESTMENTS

AT 31 DECEMBER 2002

Classification	Name	Market value £'000	%
UNITED KINGDOM			
Electronic and electrical equipment	Alba	4,845	
	Amstrad	1,576	
	†DDD Group	138	
	†Innovision Research & Technology	162	
	Intelek	575	
	Linx Printing Technologies	3,448	
	†OMG	257	
		11,001	5.5
Healthcare and pharmaceuticals Distributors	Biotrace International	3,132	
	Abacus Group	938	
	Acal	6,031	
	Deltron Electronics	717	
	Diploma	3,333	
	†Netcentric Systems	27	
	Northamber	1,999	
		13,045	6.5
Leisure, entertainment and hotels	†Cyberes	617	
	†Ukbetting	541	
	†World Travel Holdings	221	
		1,379	0.7
Media and photography	Aegis Group	1,565	
	†Alibi Communications	49	
	†Ambient	3,011	
	Applied Optical Technologies	964	
	Bloomsbury Publishing	652	
	†BV Group	28	
	†Campus Media	210	
	Chime Communciations	1,291	
	†Digital Classics	25	
	Eckoh Technologies	1,485	
	Euromoney Institutional Investor	3,198	
	†First Artist Corp	115	
	GWR Group	660	
	†Incisive Media	1,188	
	Informa Group	1,340	
	Johnston Press	2,211	
	Metal Bulletin	1,412	
	Music Choice Europe	450	
	†Online Travel Group	232	
	§Quarto Group	1,393	
	Scottish Radio Holdings	2,681	
	Sterling Publishing Group	522	
	†Synigence	131	
	†Taylor & Francis Group	413	
	Taylor Nelson Sofres	2,972	
	†Ten Alps Communications	233	
	†UBC Media Group	348	
†WILink	1,110		
Wilmington Group	1,715		
†Zyzygy	16		
		31,620	15.8
Support services	†BNB Resources	93	
	Harvey Nash Group	233	
	†Hot Group	401	
	†Ingenta	299	
	Lorien	1,295	
	Mice Group	1,724	
	‡†Mondas 8% CULS	518	
	†PSD Group	289	
	†RDL Group	98	
	†Thomson Intermedia	416	
	†Xpertise Group	273	
		5,639	2.8

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2002

Classification	Name	Market value £'000	%
Telecommunication services	Easynet Group	198	2.4
	†PNC Telecom	488	
	Project Telecom	2,793	
	THUS Group	1,350	
		4,829	
Speciality and other finance	†Adaptive Venture Managers	21	0.1
	*Herald Investment Management Ltd	252	
	*HIML Jersey Ltd	–	
		273	
Information technology hardware	CML Microsystems	405	5.5
	Imagination Technologies Group	2,113	
	Plasmon	3,585	
	Roxboro	936	
	Telemetrix	2,309	
	*UbiNetics	1,000	
	Vislink	692	
		11,040	
Software and computer services	Alphameric	2,704	22.0
	Alterian	1,091	
	Anite Group	470	
	Argonaut Games	88	
	†Auxinet	342	
	Azlan Group	3,927	
	†BSoftB	130	
	†Cardpoint	237	
	†Clarity Commerce Solutions	810	
	†CR.C Group	382	
	Detica Group	3,132	
	Diagonal	599	
	Electronic Data Processing	734	
	Eyretel	500	
	†Fayrewood	1,242	
	Gresham Computing	1,286	
	†Harrier Group	201	
	ICM Computer Group	1,624	
	†i-documentsystems Group	1,459	
	†IMS Maxims	150	
	Innovation Group	493	
	†Intechnology	405	
	†Interactive Digital Solutions	560	
	†Intelligent Environments Group	280	
	†IQ-Ludorum	119	
	†Manpower Software	164	
	Marlborough Stirling	603	
	Minorplanet Systems	1,128	
	MMT Computing	890	
	Netbenefit	199	
	†Netcall	155	
	Northgate Information Solutions	4,030	
	†OneClickHR	301	
	patsystems	600	
	Retail Decisions	760	
	RM	607	
	Rolfe & Nolan	849	
	SDL Group	1,410	
	Sherwood International	1,046	
	Statpro Group	320	
*‡Statpro Variable	400		
Superscape Group	400		
SurfControl	4,378		
Synstar	1,579		
Vocalis Group	234		
Xansa	825		
	43,843	22.0	
	TOTAL UNITED KINGDOM EQUITIES	125,801	62.9

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2002

Classification	Name	Market value £'000	%
CONTINENTAL EUROPE			
Electronic and electrical equipment	Draka Holding	Netherlands	312
	Lintech Information Technologies	Germany	70
	Logitech International	Switzerland	2,224
		2,606	1.3
Media and photography	NRJ Group	France	2,344
	PubliGroupe	Switzerland	445
	Roularta Media Group	Belgium	276
	United Internet	Germany	678
		3,743	1.9
Support services	Teleplan International	Netherlands	1,526
Investment companies	Sadot Research and Development	Israel	308
Information technology hardware	LPKF Laser & Electronics	Germany	218
	Melexis	Belgium	606
	Nera	Norway	525
	Suess MicroTec	Germany	675
		2,024	1.0
Software and computer services	*Atex Media Solutions	Norway	–
	Horizon Technology Group	Ireland	106
	Merkantldata	Norway	157
	Plaut	Germany	230
	Profdoc	Norway	826
	Reply	Italy	1,212
	SkillSoft	Ireland	68
		2,599	1.3
	TOTAL EUROPEAN EQUITIES	12,806	6.4
AMERICAS			
Electronic and electrical equipment	M-Systems Flash Disk		1,135
	Pioneers Power Integrations		211
	RadiSys		285
	Remec		612
	‡Reptron Electronics		55
	Rockford		366
	Silicon Image		596
	Sipex		379
		3,639	1.8
Healthcare and pharmaceuticals	SonoSite		325
Distributors	Black Box		1,169
	Jaco Electronics		154
	Pioneer-Standard Electronics		342
		1,665	0.8
Leisure, entertainment and hotels	Pegasus Group		374
Media and photography	Cinar	Canada	99
	Emmis Communications		518
	Lions Gate Entertainment	Canada	330
	Mediacom Communications		328
	Multivision Communications	Canada	–
	Scholastic		1,117
		2,392	1.2
Support services	Computer Horizons		264
	First Consulting Group		429
	OneSource Information Services		3,040
		3,733	1.9
Information technology hardware	Adaptec		877
	Asyst Technologies		868
	ATMI		230
	Computer Network Technology		176
	Credence Systems		580
	Integrated Device Technology		520

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2002

Classification	Name	Market value £'000	%
Information technology hardware (continued)	Kopin	244	
	Micros Systems	348	
	Microtune	156	
	MRV Communications	625	
	Nova Measuring Instruments	150	
	Powerwave Technologies	335	
	Rainbow Technologies	445	
	Rimage	151	
	RIT Technologies	157	
	Signal Technology	335	
	Skyeworks Solutions	1,472	
	Spectralink	356	
	Stratex Networks	302	
	Stratos Lightwave	191	
	Synaptics	449	
			8,967
Software and computer services	Advanced Digital Information	573	
	Advent Software	847	
	At Road	616	
	Borland Software	764	
	Captaris	507	
	Carreker	359	
	Centra Software	307	
	Chordiant Software	939	
	Datastream Systems	358	
	EPIQ Systems	854	
	HPL Technologies	-	
	I-many	454	
	Keynote Systems	240	
	Kronos	804	
	Lionbridge Technologies	54	
	LogicVision	120	
	Macromedia	265	
	Macrovision	1,295	
	Magma Design Automation	595	
	Manhattan Associates	470	
	MSC. Software	144	
	Multex.com	170	
	Numerical Technologies	129	
	PDF Solutions	151	
	Retalix	738	
	RSA Security	995	
	Seachange International	248	
	Serena Software	490	
	Sourcecorp	462	
	Sphinx International	-	
SPSS	173		
THQ	453		
Versity	710		
		15,284	7.6
	TOTAL AMERICAN EQUITIES	36,379	18.2
JAPAN			
Electronic and electrical equipment	Yamaichi Electronics	723	
	Yokowo	270	
		993	0.5
	TOTAL JAPANESE EQUITIES	993	0.5

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2002

Classification	Name	Market value £'000	%	
ASIA PACIFIC				
Electronic and electrical equipment	Advantech Co	Taiwan	402	
	Arcontech Corp	Hong Kong	70	
	Chroma ATE	Taiwan	492	
	† Kingboard Chemicals Holdings	Hong Kong	392	
	SCMP Group	Hong Kong	1,292	
	Seksun Corp	Singapore	875	
	TCL International Holdings	Hong Kong	246	
	TPV Technology	Hong Kong	365	
	Uchi Technologies	Malaysia	275	
	Venture Corp	Singapore	398	
	XAC Automation	Taiwan	210	
			5,017	2.5
	Distributors	Artel Solutions Group Holdings	Hong Kong	759
Media and photography	Acer TWP	Taiwan	174	
	Health Communications Network	Australia	718	
	Informatics Holdings	Singapore	1,380	
	Roadshow Holdings	Hong Kong	245	
	Shaw Brothers	Hong Kong	382	
	Star Publications	Malaysia	2,736	
	United Broadcasting Corp	Thailand	230	
		5,865	2.9	
Telecommunication services	Asia Satellite Telecommunications	Hong Kong	281	0.1
Information technology hardware	ASM Pacific Technology	Hong Kong	478	
	Chartered Semiconductor Man.	Singapore	508	
	Huan Hsin Holdings	Singapore	198	
	Nera Telecommunications	Singapore	453	
	PKL	Korea	728	
	Proview International Holdings	Hong Kong	421	
	Seoul Semiconductor	Korea	566	
		3,352	1.7	
Software and computer services	Solution 6 Holdings	Australia	735	0.4
	TOTAL ASIA PACIFIC EQUITIES		16,009	8.0
	Value of equity stocks	190,448		
	Convertible preference stocks having an element of equity	565		
	Convertible loan stocks having an element of equity	973		
	Warrants having an element of equity	2		
TOTAL EQUITY INVESTMENTS		191,988	96.0	
NET LIQUID ASSETS		7,912	4.0	
TOTAL ASSETS AT MARKET VALUE (before deduction of bank loans)		199,900	100.0	

(† denotes holding listed on AIM)

(* denotes unlisted security)

(‡ denotes holding wholly or partly in convertible loan stock)

(§ denotes holding wholly or partly in preference loan stock)

(¶ denotes holding wholly or partly in warrants)

LONG TERM RECORD

CAPITAL								
At 31 December	Total assets £'000	Bank loans £'000	Equity shareholders' funds £'000	Net asset value per share p	Diluted net asset value per share† p	Share price p	Warrant price p	(Discount)/ premium‡ %
□ Inception	64,170	–	64,170	98.72	98.72	90.90#	45.50	(7.9)
1994	60,823	–	60,823	93.57	93.57	91.00	38.00	(2.7)
*1995	89,689	–	89,689	137.98	132.36§	127.00	55.00	(4.0)
1996	130,055	–	130,055	156.89	150.88§	136.00	61.00	(9.9)
1997	147,424	–	147,424	177.84	171.80	136.00	60.50	(20.8)
1998	170,982	–	170,982	206.25	201.70	161.50	77.50	(19.9)
1999	432,620	(3,343)	429,277	517.44	494.22	511.00	411.00	3.4
2000	378,607	(3,233)	375,374	447.55	431.43	491.00	382.50	13.8
2001	275,624	(2,892)	272,732	322.94	314.53	306.00	212.50	(2.7)
2002	199,900	(22,310)	177,590	210.23	206.68	177.00	79.00	(14.4)

* Restated for change in accounting policy to account for income on an xd basis.

† The diluted net asset value per ordinary share figures have been calculated in accordance with FRS14 (see note 18, page 37).

‡ (Discount)/premium is the difference between Herald's quoted share price and its underlying diluted net asset value (FRS14).

§ The diluted net asset values at 31 December 1995 and 1996 have been restated with the adoption of FRS14. The previously reported fully diluted net asset values were 131.65p and 149.45p respectively.

□ Inception date 16 February 1994, 100p was shareholders' subscription price before launch costs of 1.3p.

90.9p is the capital gains tax (CGT) base subscription price for shareholders adjusting for warrants which were issued on a 1 for 5 basis. The CGT base for the warrant is 45.5p.

REVENUE						GEARING RATIOS	
Period to 31 December	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share net** p	Dividend ordinary share net p	Expense ratio†† %	Actual gearing‡‡	Potential gearing§§
1994	1,286	439	0.68	0.50	0.82	85	100
*1995	1,968	780	1.20	0.65	1.32	92	100
1996	2,897	1,035	1.32	0.81	1.46	89	100
1997	3,185	1,118	1.35	0.85	1.29	92	100
1998	3,845	1,134	1.37	0.90	1.36	94	100
1999	3,658¶	717	0.86	0.85	0.95	93	101
2000	6,508	778	0.93	0.85	1.40	86	101
2001	4,728	1,145	1.36	0.85	1.07	84	101
2002	3,539	627	0.74	0.85	1.21	108	113

* Restated for change in accounting policy to account for income on an xd basis.

** The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 8, page 34).

†† Ratio of total operating costs against average shareholders' funds.

‡‡ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (excluding convertibles) divided by shareholders' funds.

§§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.

¶ Restated for the adoption of FRS16 "Current Tax".

CUMULATIVE PERFORMANCE								
At 31 December	Diluted net asset value per share†	Share price	Benchmark	Hoare Govett Smaller Cos Index	Russell 2000 Technology Index	Earnings per ordinary share	Dividend per ordinary share net	Retail price index
Inception	100	100	100	100	–	–	–	–
1994	95	100	84	83	–	100	100	100
1995	134	140	95	93	100¶¶	176	130	103
1996	153	150	109	107	98	194	162	106
1997	174	150	126	113	103	199	170	110
1998	204	178	124	104	113	201	180	113
1999	501	562	213	158	240	126	170	115
2000	437	540	186	154	154	137	170	118
2001	319	337	157	130	123	200	170	119
2002	209	195	104	97	60	109	170	122

all figures have been rebased to 100.

Compound Annual Returns

5 year From inception	3.8%	5.4%	(3.7)%	(3.1)%	(10.3)%	(11.3)%	–	2.2%
	8.6%	7.7%	0.4%	(0.4)%	(7.1)%	1.1%	6.9%	2.5%

¶¶ Index at 9 April 1996, being the first date funds were first available for international investment.

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2002.

Business Activity

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2001, subject to any matters that may arise from any subsequent enquiry by the Inland Revenue into the Company's tax returns. In the opinion of the Directors the Company has conducted its affairs so as to enable it to continue to obtain such approval and will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

The Company is an investment company within the meaning of Section 266 of the Companies Act 1985.

Investment Policy and Objectives

The objective of the Company's management is to secure an attractive level of overall return for its shareholders primarily from capital growth but also from income over the life of the Company. The Company spreads its risks across a diversified portfolio of quoted securities in smaller companies which specialise in products, services or applications in the communications and multimedia sectors. The Company has certain specific investment guidelines, including that investee companies will have an equity market capitalisation of up to approximately £750 million at the time of initial investment. Securities acquired by the Company will normally be quoted on the Official List (which includes the Alternative Investment Market) of the London Stock Exchange or equivalent markets overseas.

The Directors consider it desirable that shareholders be given the opportunity to consider the future of the Company at regular intervals. Accordingly, an ordinary resolution will be proposed at the Annual General Meeting of the Company in 2004 (and at every third subsequent Annual General Meeting) to the effect that the Company should continue as an investment trust. If such resolution is not passed, the Directors will prepare and submit to shareholders (for approval by special resolution) proposals for the unitisation or other reconstruction of the Company. If these proposals are not approved the Company will be wound up.

The Articles of Association of the Company permit it to borrow up to one-fifth of its total capital and reserves. At 31 December 2002 borrowings comprised yen 551,550,000 (£2.9 million market value) and US\$31,268,000 (£19.4 million market value).

The Company's policy is to adopt a long-term approach to investment.

Results and Dividend

The net revenue after tax for the period was £627,000 (2001 – £1,145,000).

The Directors recommend a dividend of 0.85p per Ordinary share for the year ended 31 December 2002, which, if approved at the Annual General Meeting, will be payable on 22 April 2003 to holders registered on 28 March 2003. The payment will amount to £718,000 and the transfer from reserves will therefore be £91,000.

The net asset value (NAV) of the Company at 31 December 2002 represented a value of 210.23p per Ordinary share (diluted (FRS14) 206.68p). This represented a fall of 34.9% during the year (diluted (FRS14) 34.3%) and a rise of 113.0% (diluted (FRS14) 109.4%) since the date of committal of funds (16 February 1994) after allowing for launch expenses of 1.3p per share.

Investment Report and Outlook

The Chairman's Statement and the Investment Manager's Report incorporates a review of the highlights of the year to 31 December 2002, and the outlook for the Company.

The Board

Other than as declared in the following paragraph and in the section headed "Management and Administration" below, your Board has complete independence from the investment manager, all its members being non-executive. All have been Directors for the whole period under review with the exception of Mr D C P McDougall who was appointed on 13 February 2002.

DIRECTORS' REPORT *continued*

The Board *continued*

Other than in respect of Mr Boase's shareholding of 7.2% of the Ordinary share capital of the investment management company, there were no contracts subsisting during or at the end of the year in which a Director was or is materially interested.

The Directors at the year end, and their interests in the Company, all of which are beneficially owned, were as follows:

Name	Number of Ordinary Shares		Number of Warrants	
	2002	2001	2002	2001
Martin Boase	50,000	50,000	–	–
Clay Brendish	–	–	–	–
Justin Dukes	1,158	1,158	–	–
Colin McCarthy	8,112	8,112	1,000	1,000
Douglas McDougall (appointed 13 February 2002)	150,000	–	–	–
Clive Parritt	8,649	5,637	1,000	1,000

Mr D C P McDougall was appointed to the Board on 13 February 2002. His appointment was confirmed at the Annual General Meeting on 17 April 2002.

Mr T Abell retired from the Board on 17 April 2002.

Mr J P Dukes and Mr C M McCarthy retire by rotation and, being eligible, are recommended by the Board for re-election.

Mr M Boase retires having reached the age of 70. He is recommended by the Board for reappointment.

There have been no changes intimated in the Directors' interests up to 20 February 2002.

Management and Administration

For the entire year under review the management of the Company was contracted to Herald Investment Management Limited. HIML is regulated by the FSA.

The senior director of HIML with prime responsibility for the management of Herald Investment Trust is Katie Potts, who is also a substantial shareholder of HIML. HIML was employed initially under a three-year contract. This period has now expired and the contract is subject to 12 months' notice. HIML is remunerated at a monthly rate of 0.08333% of the Company's net asset value.

At 31 December 2002 the Company was the beneficial owner of 14% of the Ordinary share capital of HIML.

Administration of the Company and its investments is contracted by HIML to Baillie Gifford & Co., who also act as company secretary.

Custody of investments is contracted to The Bank of New York.

Significant Shareholdings

At 20 February 2003 the Directors have been notified of the following shareholdings comprising 3% or more of the issued share capital of the Company:

Name	Ordinary Shares	% of issue
Newton Investment Management Limited	11,958,955	14.2
Henderson Global Investors	5,895,576	7.0
Windsor Life	2,700,000	3.2
Newton ICIV – Managed Fund	2,560,411	3.0
Legal & General Investment Management	2,547,472	3.0

DIRECTORS' REPORT *continued*

Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business. The Company negotiates with its suppliers the terms on which business will take place and abides by such terms.

The Company did not have any trade creditors at 31 December 2002.

Auditors

The Auditors, Ernst & Young LLP, are willing to continue in office and in accordance with section 385 and 390A of the Companies Act 1985 resolutions concerning their reappointment and remuneration will be submitted to the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held on 16 April 2003. The following resolutions will be proposed as special business.

Authority to Repurchase the Company's Ordinary Shares

At the Company's Annual General Meeting held on 17 April 2002 it was resolved that the Company be authorised to purchase in the market up to 12,659,607 Ordinary shares (14.99% of its Ordinary share capital in issue at that time). Between the date of that Annual General Meeting and the date of this notice no Ordinary shares have in fact been bought back by the Company. The Board continues to believe, however, that the ability of the Company to purchase its own Ordinary shares in the market will potentially benefit all shareholders of the Company. The repurchase of Ordinary shares at a discount to the underlying net asset value ("NAV") should enhance the NAV per Ordinary share of the remaining shares and may also enable the Company to address more effectively any imbalance between supply and demand for the Company's Ordinary shares.

Accordingly, the Directors are now recommending in Resolution 9 that this authority to purchase the Company's own Ordinary shares should be renewed and should now expire at the Company's Annual General Meeting to be held in 2004. Authority will be sought to purchase up to 14.99% of the Company's Ordinary shares in issue at the date of the passing of the resolution (the maximum permitted under the Listing Rules of the UK Listing Authority) at a price that is not less than 25p per share (the nominal value of each share) and not more than 5% above the average middle-market quotation for the five business days preceding the day of purchase. The authority being sought, the full text of which can be found in Resolution 9 in the Notice of Annual General Meeting, will last until the date of the Annual General Meeting in 2004. The decision as to whether the Company repurchases any shares will be at the absolute discretion of the Board and will only be considered when it is in the interests of the Company and its shareholders as a whole. It is the intention that purchases will only be made at a discount to net asset value.

The Directors consider that the implementation of the facility to repurchase the Company's own Ordinary shares is in the interests of shareholders as a whole and unanimously recommend all holders to vote in favour by completing and returning the enclosed form of proxy. The proxy form should be returned to the Company's Registrar as soon as possible but in any event so as to arrive no later than 48 hours before the time of the Annual General Meeting.

Amendment to the Articles of Association

An amendment to the Company's Articles of Association is being proposed in Resolution 10 in the Notice of Annual General Meeting to provide greater flexibility in the Company's gearing strategy. The proposed amendment is to increase the maximum level of gearing from the current level of 20% to 30% of shareholders' funds.

By order of the Board

Baillie Gifford & Co.
Secretaries

21 February 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 as at the end of the year and of the surplus or deficit for the year. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

Douglas McDougall
Director

21 February 2003

DIRECTORS' REMUNERATION REPORT

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 27.

Remuneration Committee

The Company has six Directors all of whom are non-executive. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. The Company Secretary provides advice when the Board considers the level of Directors' fees.

Policy on Directors' fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size. It is intended that this policy will continue for the year ended 31 December 2003 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The Board carried out a review of the level of Directors' fees during the year, and concluded that the fees should be increased from £13,200 to £15,000 for the Chairman and from £9,900 to £11,000 per Director. The increase being effective from such date that would ensure that Directors' fees in aggregate would not exceed the £70,000 limit imposed by the Company's Articles.

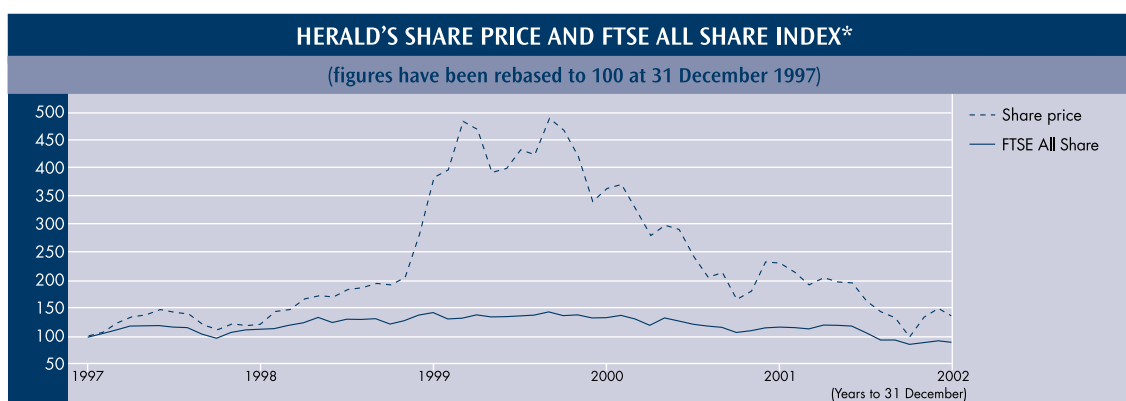
Directors' service contracts

It is the Board's policy that none of the Directors have a service contract. Mr C M Brendish (appointed 23 July 2001) and Mr D C P McDougall (appointed 13 February 2002) were provided with appointment letters. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

DIRECTORS' REMUNERATION REPORT *continued*

Company performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes, as it is the best measure of performance for UK listed companies.



Directors emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2002 £	Fees 2001 £
Martin Boase (Chairman)	14,408	13,200
Timothy Abell (retired 17 April 2002)	2,902	9,900
Clay Brendish	10,638	4,394
Justin Dukes	10,638	9,900
Colin McCarthy	10,638	9,900
Douglas McDougall (appointed 13 February 2002)	9,472	–
Clive Parritt	10,638	9,900
	<u>69,334</u>	<u>57,194</u>

Approval

The Directors' Remuneration Report on pages 23 to 24 was approved by the Board of Directors on 12 February 2003 and signed on its behalf by

Douglas McDougall
Director

CORPORATE GOVERNANCE

Code of Best Practice

The Directors have considered the principles set out in the Combined Code and can confirm that the Company has, except where otherwise stated, complied with all material aspects of the Combined Code throughout the year.

The Principles of Good Governance

The Board

The Board's regular meetings take place every three months. There is no formal schedule of matters reserved for Board approval. Such a schedule would be inappropriate since the Board decides on all aspects of the activities of the Company including investment policy, borrowings, treasury matters and dividend policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The Board is comprised entirely of non-executive Directors who, except as disclosed in the Directors' Report, are independent of the managers. The executive responsibilities for investment management and administration have been delegated to Herald Investment Management Limited and Baillie Gifford & Co. respectively, and in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer. Martin Boase was appointed Chairman at inception, as the Board is small there is no recognised senior independent member. The Directors all have appropriate business and financial experience with which to conduct the business of the Board. Information on the Board members can be found on page 4.

Given the non-executive nature of the Board a separate nomination committee has not been established. It is the view of the Board that the appointment of new Directors should be a matter for consideration by the Board as a whole. Under the provisions of the Company's Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that the Directors retire by rotation and submit themselves for re-election at least once every three years.

There is an agreed procedure for Directors to seek independent professional advice if necessary and at the Company's expense.

Remuneration

Since all directors are non-executive, the Company is not required to comply with principles B.1 to B.3 of the Combined Code in respect of executive Directors' remuneration. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 23 and 24.

Internal Control and Risk Management

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management have been delegated to Herald Investment Management Limited and Baillie Gifford & Co., as detailed in the Directors' Report. The Board acknowledges its responsibilities to supervise and control the discharge by the managers and secretaries of their obligations.

The managers are responsible for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Company's investments are segregated from the investment and administration functions through the appointment of The Bank of New York as independent custodian of the Company's investments.

The managers have a compliance function in accordance with FSA regulations. The Board receives a report on monitoring procedures at least annually. In addition, Baillie Gifford & Co. conducts an annual review of its internal controls which is documented within an internal controls report. This report is independently reviewed by Baillie Gifford & Co.'s auditors. A copy of the internal controls report is submitted to the Board. The Baillie Gifford & Co. partner in charge of internal audit and compliance provides the Board with regular reports on its monitoring programs as they relate to its secretarial and administrative function.

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the system and they have procedures in place to review its effectiveness on a regular basis.

CORPORATE GOVERNANCE *continued*

The Board has undertaken a full review of all aspects of the published guidance “Internal Control: Guidance for Directors on the Combined Code” (the Turnbull guidance) and believes that it has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the Turnbull recommendations. To ensure that risk management and internal control are considered on a regular basis and that a full risk and control assessment is undertaken on an annual basis, the following processes have been established in compliance with the guidance:

- internal control strategy has been formalised with the production of a detailed risk map whereby significant risks are identified and the key controls to manage those risks are confirmed as in place and operating effectively;
- Baillie Gifford’s reporting procedures for the internal audit department, in respect of its risk framework monitoring and audit programme, and the compliance department, in respect of its regulatory monitoring programme, are defined and formalised within a service level agreement; and
- regular reports on internal control are prepared by the managers and submitted for Board review.

These procedures ensure that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year, they also provide a mechanism to assess whether further action is required to manage the risks identified. The Board confirms that these procedures have been in place throughout the Company’s financial year, are operating effectively and continue to be in place up to the date of approval of this Report.

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are included on pages 22 and 27.

The accounts 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.

An Audit Committee has been established in compliance with the Combined Code consisting of all Directors. The Audit Committee’s authority and duties are defined within its formal terms of reference. The Chairman of the Board has been appointed Chairman of the Audit Committee.

An investment management agreement between the Company and Herald Investment Management Limited sets out the matters over which the managers have been delegated authority by the Board. The management agreement is terminable on not less than 12 months’ notice and the Audit Committee reviews the terms of the management agreement.

The Board, currently comprising exclusively non-executive directors, meets periodically as an audit committee to review the Company’s interim and annual financial statements. The Board approves the level of fees for audit and non-audit services and considers the relationship with the Company’s auditors.

Relations with Shareholders

The Company’s managers meet regularly with institutional shareholders and report to the Board. The Company’s Annual General Meeting is used as an opportunity to communicate with private shareholders and the Board announces the level of proxies lodged. The notice period for the Annual General Meeting is twenty working days.

The Company has given discretionary voting powers to the investment managers, HIML. The managers vote against resolutions they consider may damage shareholders rights or economic interests. HIML give consideration to socially responsible investments when making investment decisions as they believe this to be in the best interest of the Company in the long term, but their overriding consideration is to produce good investment returns for shareholders.

Compliance

Except for the variations noted above, the Board considers that throughout the year the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority of the FSA. The areas of variation are that there is no formal schedule of matters reserved for the Board and there is no recognised senior independent member of the Board. As previously stated, internal control procedures have been in place for the full year which accord with the guidance for directors on compliance with the Combined Code.

On behalf of the Board

Douglas McDougall

Director

21 February 2003

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HERALD INVESTMENT TRUST PLC

We have audited the Company's financial statements for the year ended 31 December 2002 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Company Summary, Year's Summary, Long Term Performance Summary, Directors, Manager and Advisers, Chairman's Statement, Portfolio Review, Directors' Report, unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement, Notice of Annual General Meeting and Further Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. 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 considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its net revenue for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP

Registered Auditor

Edinburgh

21 February 2003

Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Accounts:

- *The maintenance and integrity of the Herald Investment Management website is the responsibility of the Manager, Herald Investment Management Limited; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*
- *Legislation in the United Kingdom governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

STATEMENT OF TOTAL RETURN

(incorporating the revenue account)

FOR THE YEAR ENDED 31 DECEMBER 2002

		2002			2001		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	9	–	(95,509)	(95,509)	–	(103,929)	(103,929)
Unrealised gain on loans		–	582	582	–	341	341
Currency losses		–	(146)	(146)	–	(61)	(61)
Income	2	3,539	–	3,539	4,728	–	4,728
Investment management fee	3	(2,470)	–	(2,470)	(3,205)	–	(3,205)
Other administrative expenses	4	(262)	–	(262)	(272)	–	(272)
Net return before finance costs and taxation		807	(95,073)	(94,266)	1,251	(103,649)	(102,398)
Finance costs of borrowings	5	(149)	–	(149)	(75)	–	(75)
Return on ordinary activities before taxation		658	(95,073)	(94,415)	1,176	(103,649)	(102,473)
Tax on ordinary activities	6	(31)	–	(31)	(31)	–	(31)
Return on ordinary activities after taxation		627	(95,073)	(94,446)	1,145	(103,649)	(102,504)
Ordinary dividend payable	7	(718)	–	(718)	(718)	–	(718)
Transfer (from)/to reserves		(91)	(95,073)	(95,164)	427	(103,649)	(103,222)
Return per Ordinary share							
Basic	8	0.74p	(112.55p)	(111.81p)	1.36p	(123.01p)	(121.65p)
Diluted (FRS 14)		0.73p	(110.16p)	(109.43p)	1.32p	(119.45p)	(118.13p)
Dividend per Ordinary share		0.85p			0.85p		

The revenue column of this statement is the revenue account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes on pages 31 to 38 are an integral part of this statement.

BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	2002		2001	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	9		191,988		258,901
Current assets					
Debtors	11	522		1,857	
Cash at bank and in hand	10	8,763		19,243	
		9,285		21,100	
Creditors:					
Amounts falling due within one year	12	(20,796)		(4,377)	
Net current assets			(11,511)		16,723
			180,477		275,624
Creditors:					
Amounts falling due after one year	13		(2,887)		(2,892)
TOTAL NET ASSETS			177,590		272,732
Capital and reserves					
Called-up share capital	15		21,119		21,113
Share premium	16		69,723		69,698
Warrant reserve	16		1,516		1,525
Capital reserve – realised	16		186,381		204,113
Capital reserve – unrealised	16		(103,197)		(25,856)
Revenue reserve	16		2,048		2,139
EQUITY SHAREHOLDERS' FUNDS	17		177,590		272,732
NET ASSET VALUE PER ORDINARY SHARE					
Basic	18		210.23p		322.94p
Diluted (FRS14)			206.68p		314.53p
Fully diluted			206.04p		314.42p

The accounts were approved by the Board of Directors and signed on their behalf on 21 February 2003.

Douglas McDougall
Director

The accompanying notes on pages 31 to 38 are an integral part of this statement.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002		2001	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19		790		1,571
Servicing of Finance					
Loan interest		(84)		(79)	
Net cash outflow from servicing of finance			(84)		(79)
Financial investment					
Purchase of investments		(99,858)		(124,980)	
Sale of investments		69,514		130,695	
Currency movement		(146)		(61)	
Net cash (outflow)/inflow from financial investment			(30,490)		5,654
Equity dividend paid			(718)		(713)
Net cash (outflow)/inflow before use of liquid resources and financing			(30,502)		6,433
Management of liquid resources†					
Decrease in term deposits			–		4,000
Financing					
Issue of Ordinary shares		22		580	
Loans drawn down		20,000		–	
Net cash inflow from financing			20,022		580
(DECREASE)/INCREASE IN CASH	20		(10,480)		11,013
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)					
	20				
(Decrease)/increase in cash in period			(10,480)		11,013
Decrease in short term investments			–		(4,000)
Increase in bank loans			(20,000)		–
Exchange movement on loans			582		341
MOVEMENT IN NET FUNDS IN PERIOD			(29,898)		7,354
NET FUNDS AT 1 JANUARY			16,351		8,997
NET (DEBT)/FUNDS AT 31 DECEMBER			(13,547)		16,351

† The Company includes as liquid resources term deposits of less than one year.

The accompanying notes on pages 31 to 38 are an integral part of this statement.

NOTES TO THE ACCOUNTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted, which are unchanged from last year and have been applied consistently, are set out below.

(a) **Accounting convention**

The accounts are prepared under the historical cost convention, as modified by the revaluation of investments. The accounts have been prepared in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies”.

(b) **Investments**

Listed investments are valued at closing mid-market prices. Investments on the Alternative Investment Market are included at their quoted mid-market prices. Where material unlisted investments are valued by Directors on the basis of latest information in line with the relevant principles of the British Venture Capital Association Guidelines.

(c) **Income**

Dividend income is accounted for when the entitlement to the income is established (normally on the ex-dividend date). Interest receivable is accounted for on an accruals basis.

(d) **Capital reserves**

The Company is precluded by its Articles from making any distribution of capital profits by way of dividend. Realised profits and losses on disposals of investments are dealt with in the realised capital reserve. Unrealised revaluation movements are dealt with through the unrealised capital reserve. Special dividends representing repayments of capital are dealt with through the unrealised capital reserve.

(e) **Investment management fees**

Investment management fees are charged wholly to revenue.

(f) **Finance costs**

Finance costs are accounted for on an accruals basis and are charged through the revenue account.

(g) **Deferred taxation**

Deferred taxation is provided on all timing differences which have originated but not reversed at the balance sheet date, calculated on an undiscounted basis, and based on enacted tax rates relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(h) **Foreign currency**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and loans denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences of a revenue nature are taken to the revenue account. Those of a capital nature are taken to capital reserve.

NOTES TO THE ACCOUNTS *continued*

2. Income	2002 £'000	2001 £'000
Income from investments		
Franked dividends from listed investments	1,993	1,763
Franked dividends from unlisted investments (inc AIM)	63	35
Unfranked income from listed UK convertible bonds	3	–
Unfranked income from unlisted (inc AIM) UK convertible bonds	58	41
Overseas dividend income	606	502
Unfranked income from foreign convertible bonds	16	5
Gilt interest income	397	1,844
	<u>3,136</u>	<u>4,190</u>
Other income		
Deposit interest	385	534
Underwriting commission	18	4
	<u>403</u>	<u>538</u>
Total income	<u>3,539</u>	<u>4,728</u>
Total income comprises:		
Dividends	2,662	2,300
Interest from investments	474	1,890
Other	403	538
	<u>3,539</u>	<u>4,728</u>
Income from investments		
Listed UK	2,393	3,607
Listed overseas	622	507
Unlisted	121	76
	<u>3,136</u>	<u>4,190</u>

3. Investment management fee – <i>all charged to revenue</i>	2002 £'000	2001 £'000
Investment management fee	2,140	2,890
Irrecoverable VAT thereon	330	315
	<u>2,470</u>	<u>3,205</u>

Herald Investment Management Limited are appointed investment managers under a management agreement which is terminable on twelve months notice. Their fee is calculated on a monthly rate of 0.08333% of the Company's net asset value and is subject to VAT at the appropriate rate.

NOTES TO THE ACCOUNTS *continued*

4. Other administrative expenses – <i>all charged to revenue</i>	2002	2001
	£'000	£'000
Custodian's fees	44	48
Registrars' fees	26	31
Directors' fees	69	57
Auditors' fees – audit work	10	10
AITC its campaign	–	18
Miscellaneous expenses	113	108
	<u>262</u>	<u>272</u>

5. Finance costs of borrowings – <i>all charged to revenue</i>	2002	2001
	£'000	£'000
Bank loans repayable within five years	149	75
	<u>149</u>	<u>75</u>

6. Taxation	2002	2001
	£'000	£'000
Overseas taxation	31	31
	<u>31</u>	<u>31</u>
<p>The tax charge for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.</p>		
Revenue return on ordinary activities before taxation	658	1,176
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	197	353
Income not taxable	(617)	(539)
Expenses not deductible for tax purposes	–	5
Overseas withholding tax claimed as a deduction	(9)	(9)
Overseas withholding tax written off	31	31
Excess expenses in period not provided for as an asset	429	190
Current tax charge for the year	<u>31</u>	<u>31</u>

Capital returns are not included in the above analysis; as an Investment Trust, the Company's capital gains are not taxable.

There is no corporation tax charge at 31 December 2002 or 31 December 2001 as the Company has unrelieved management expenses which are available to be carried forward. The tax charge for 31 December 2002 and 2001 comprises overseas withholding taxes written off.

At 31 December 2002 the Company had surplus management expenses of £5m (2001 – £4m) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

7. Ordinary dividend	2002	2001	2002	2001
			£'000	£'000
Proposed dividend per ordinary share	0.85p	0.85p	718	718
	<u>0.85p</u>	<u>0.85p</u>	<u>718</u>	<u>718</u>

The proposed dividend will be paid on 22 April 2003 to all shareholders on the register as at the close of business on 28 March 2003.

NOTES TO THE ACCOUNTS *continued*

8. Return per Ordinary share

	2002			2001		
	Revenue	Capital	Total	Revenue	Capital	Total
Basic	0.74p	(112.55p)	(111.81p)	1.36p	(123.01p)	(121.65p)
Diluted	0.73p	(110.16p)	(109.43p)	1.32p	(119.45p)	(118.13p)

Basic revenue return per Ordinary share is based on the net revenue on ordinary activities after taxation of £627,000 (2001 – £1,145,000) and on 84,468,090 Ordinary shares (2001 – 84,262,972) being the weighted average number of Ordinary shares in issue during the year.

Basic capital return per Ordinary share is based on the net capital loss for the financial year of £95,073,000 (2001 – loss £103,649,000) and on 84,468,090 Ordinary shares (2001 – 84,262,972) being the weighted average number of Ordinary shares in issue during the year.

The diluted returns per Ordinary share are calculated using the weighted average number of warrants in issue during the year adjusted by the difference between the average price of the Ordinary shares during the year (221.62p (2001 – 341.6p)) and the Subscription price of 100p, to give a weighted average of 86,300,599 (2001 – 86,769,677) shares. The income return of 0.73p (2001 – 1.32p) and capital return of (110.16p) (2001 – (119.45p)) are based on the same income and capital figures used in the basic return calculation.

9. Fixed assets – investments

	2002	2001
	£'000	£'000
Listed at market valuation on the London Stock Exchange	105,946	143,251
Listed at market valuation on other recognised Stock Exchanges	66,187	91,892
AIM	18,203	22,506
Unquoted*	1,652	1,252
Total fixed asset investments	<u>191,988</u>	<u>258,901</u>

	Listed in UK £'000	Listed overseas £'000	AIM £'000	Unquoted £'000	Total £'000
Cost of investments at 1 January 2002	145,508	101,521	33,279	4,557	284,865
Unrealised depreciation at 1 January 2002	(2,257)	(9,629)	(10,773)	(3,305)	(25,964)
Value of investments at 1 January 2002	143,251	91,892	22,506	1,252	258,901
Movements in the year:					
Purchases at cost	47,032	36,938	12,464	400	96,834
Sales – proceeds	(52,140)	(15,113)	(985)	–	(68,238)
– realised losses	(28)	(15,671)	(1,887)	–	(17,586)
Increase in unrealised depreciation	(22,928)	(33,537)	(21,458)	–	(77,923)
Change in listing	(9,241)	1,678	7,563	–	–
Value of investments held at 31 December 2002	<u>105,946</u>	<u>66,187</u>	<u>18,203</u>	<u>1,652</u>	<u>191,988</u>
Cost of investments at 31 December 2002	131,131	109,353	50,434	4,957	295,875
Unrealised depreciation at 31 December 2002	(25,185)	(43,166)	(32,231)	(3,305)	(103,887)
Value of investments at 31 December 2002	<u>105,946</u>	<u>66,187</u>	<u>18,203</u>	<u>1,652</u>	<u>191,988</u>

	2002	2001
	£'000	£'000
Losses on investments		
Realised losses on sales	(17,586)	(13,693)
Increase in unrealised depreciation	(77,923)	(90,236)
	<u>(95,509)</u>	<u>(103,929)</u>

* The unquoted balance comprises Herald Investment Management Limited and HIML Jersey Ltd included at their cost of £251,561, Statpro Variable at £400,000, UbiNetics at £1,000,000 and Atex Media Solutions (grey market value at 31 December 2002 of £134,000) at zero.

At 31 December 2002 the Company was the beneficial owner of 14% (2001 – 14%) of the Ordinary share capital of both HIML and HIML Jersey Ltd. HIML is incorporated in the United Kingdom whereas HIML Jersey Ltd is incorporated in Jersey.

NOTES TO THE ACCOUNTS *continued*

10. Financial assets

A full list of the Company's investments is given on pages 13 to 17. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector and a review of the 20 largest equity investments by their aggregate market value, are contained in the investment review section on pages 9 to 11. All financial assets are included in the accounts at market value (see note 1).

Exposure to currency risk through asset allocation is indicated below:

	2002	2001
Portfolio:	£'000	£'000
Sterling	124,220	164,364
US dollars	38,028	63,937
Euros	8,253	7,736
Other European currencies	4,485	6,675
Yen	993	520
Hong Kong dollars	4,931	5,428
Singapore dollars	3,812	2,337
Malaysian ringitt	3,011	2,492
Other Asia Pacific currencies	4,255	5,412
	191,988	258,901
Cash:		
UK deposits	7,646	18,235
Foreign deposits – Taiwan dollars	1,117	968
– Korean won	–	40
	8,763	19,243

The cash deposits generally comprise call or overnight deposit accounts which are payable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

The interest rate risk profile of the Company's financial assets at 31 December was:

	2002			2001		
	Market value £'000	Interest rate	Maturity date	Market value £'000	Interest rate	Maturity date
Fixed rate:						
UK convertible bond	518	8%	31/10/05	546	8.00%	31/10/05
US convertible bond	55	6.75%	01/08/04	116	6.75%	01/08/04
Floating rate:						
UK convertible bond (interest rate linked to sterling LIBOR)	400	6%	02/01/04	–	–	–
UK Treasury index linked (interest rate linked to RPI)	–	–	–	26,380	5.36%	2½ years
	–	–	–	26,380	5.36%	2½ years

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

11. Debtors

	2002	2001
Due within one year:	£'000	£'000
Income accrued	455	498
Sales for subsequent settlement	–	1,276
Taxation recoverable	17	8
Other debtors and prepayments	50	75
	522	1,857

12. Creditors

	2002	2001
Amounts falling due within one year:	£'000	£'000
Purchases for subsequent settlement	320	3,344
Proposed final dividend	718	718
Bank loan (see note 14)	19,423	–
Other creditors and accruals	335	315
	20,796	4,377

Included in other creditors and accruals is £148,000 (2001 – £227,000) in respect of the investment management fee.

NOTES TO THE ACCOUNTS *continued*

13. Creditors

	2002	2001
Amounts falling due after more than one year:	£'000	£'000
Bank loan (see note 14)	2,887	2,892
	2,887	2,892

14. Financial liabilities

The Company has arranged multi-currency loan facilities with The Royal Bank of Scotland plc. These comprise a 364 day £20 million facility which expires on 31 October 2003 and a five year £3 million facility which expires on 7 January 2004.

The interest rate risk profile of the Company's financial liabilities at 31 December was:

	2002			2001		
	Market value £'000	Weighted average interest rate	Weighted average period until maturity	Market value £'000	Weighted average interest rate	Weighted average period until maturity
<i>Bank loans:</i>						
US\$ 31,268,000 – fixed rate	19,423	2.1%	10 months	–	–	–
Yen 551,550,000 – fixed rate	2,887	2.5%	12 months	2,892	2.5%	24 months
	2,887			2,892		
				2002		2001
				£'000		£'000
<i>The maturity profile of the Company's financial liabilities at 31 December was:</i>						
In one year or less, or on demand				19,423		–
In more than one year, but not more than two years				2,887		2,892
				22,310		2,892

The fair value of the loans are not materially different from the carrying value.

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

Gains and losses on hedges

At 31 December 2002 there were no unrecognised gains/losses on hedges. Realised currency gains/losses are taken to the capital reserve and are not reflected in the profit and loss account unless they are of a revenue nature.

15. Called-up share capital

		2002	2001
Authorised:			
Ordinary shares of 25p:	Number	109,000,000	109,000,000
	£'000	27,250	27,250
Allotted, issued and fully paid:			
Ordinary shares of 25p:	Number	84,475,145	84,453,686
	£'000	21,119	21,113

At the Annual General Meeting in April 2002 Shareholders granted the Company authority to purchase shares in the market up to 12,659,607 Ordinary shares (equivalent to 14.99% of its issued share capital at that date). No Ordinary shares were bought back during the year and, therefore at 31 December 2002 the Company's authority to buy back shares remained unchanged at 12,659,607. Under the provisions of the Company's Articles share buy-backs are funded from the realised capital reserve. The nominal value of the share capital would be maintained by the provision of a capital redemption reserve.

At 1 January 2002 there were 3,353,663 Warrants in issue, which entitle the holders to subscribe for one Ordinary share per Warrant at a price of 100p. On 30 April 2002, in accordance with the terms and subject to the conditions of the Warrants, 21,459 Ordinary shares were allotted in respect of Warrants on which the subscription rights had been exercised. At 31 December 2002 there were 3,332,204 Warrants in issue which entitle the holders to subscribe for one Ordinary share per Warrant at a price of 100p, exercisable on 30 April 2003 (or, if later, the date thirty days after the date on which copies of the audited accounts of the Company for its then immediately preceding financial year are dispatched to shareholders) which is the final subscription date.

NOTES TO THE ACCOUNTS *continued*

16. Reserves

	Share premium £'000	Warrant reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Balance at 1 January 2002	69,698	1,525	204,113	(25,856)	2,139
Arising on exercise of warrants	16	–	–	–	–
Transfer on warrants exercised	9	(9)	–	–	–
Net loss on realisation of investments	–	–	(17,586)	–	–
Increase in unrealised depreciation	–	–	–	(77,923)	–
Exchange difference on currency loans	–	–	–	582	–
Other exchange differences	–	–	(146)	–	–
Net deficit for the year	–	–	–	–	(91)
Balance at 31 December 2002	<u>69,723</u>	<u>1,516</u>	<u>186,381</u>	<u>(103,197)</u>	<u>2,048</u>

17. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Shareholders' funds at 1 January 2002	272,732	375,374
Total recognised gains and losses for the year (after dividend payments)	(95,164)	(103,222)
Proceeds from exercise of warrants	22	580
Shareholders' funds at 31 December 2002	<u>177,590</u>	<u>272,732</u>

18. Net asset value per Ordinary share

The net asset value per Ordinary share and the net assets attributable to the Ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2002	2001	2002 £'000	2001 £'000
Ordinary shares – basic	210.23p	322.94p	177,590	272,732
– diluted (FRS14)	206.68p	314.53p	177,590	272,732
– fully diluted	206.04p	314.42p	180,922	276,086

Net asset value per Ordinary share is based on net assets as shown above and 84,475,145 (2001 – 84,453,686) Ordinary shares, being the number of Ordinary shares in issue at each date.

The diluted net asset value per Ordinary share, calculated in accordance with Financial Reporting Standard 14 (FRS14) is 206.68p (2001 – 314.53p). This is based on net assets as shown above and on 85,924,748 (2001 – 86,711,381) Ordinary shares, being the number of Ordinary shares in issue at the year end plus the notional number of Ordinary shares that would have been issued for no consideration using a year end share price of 177.0p (2001 – 306.0p).

The fully diluted net asset value per Ordinary share has been calculated on the assumption that the warrants in issue were fully exercised at the year end at 100p each, resulting in net assets as shown above and 87,807,349 (2001 – 87,807,349) Ordinary shares in issue.

The number of outstanding warrants at 31 December 2002 was 3,332,204 (2001 – 3,353,663).

19. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	2002 £'000	2001 £'000
Net revenue on ordinary activities before finance costs and taxation	807	1,251
Decrease in accrued income	38	273
Decrease in debtors	23	59
(Increase) in creditors	(45)	(97)
Income tax (suffered)/repaid	(2)	116
Overseas tax suffered	(31)	(31)
Net cash inflow from operating activities	<u>790</u>	<u>1,571</u>

NOTES TO THE ACCOUNTS *continued*

20. Analysis of changes in net funds/(debt)

	At 1 January 2002 £'000	Cash flows £'000	Exchange movement £'000	At 31 December 2002 £'000
Cash at bank and in hand	19,243	(10,480)	–	8,763
Loans due within one year	–	(20,000)	577	(19,423)
Loans due within more than one year	(2,892)	–	5	(2,887)
	16,351	(30,480)	582	(13,547)

21. Derivatives and Other Financial Instruments

In accordance with the corporate objective of maximising total returns the Company invests in securities on a worldwide basis. The Company makes use of gearing to achieve improved performance in rising markets. Other financial instruments consist of cash, short term debtors and creditors.

The main risks arising from the Company's financial instruments are market price, foreign currency, liquidity and interest rate risks. The Manager's policies for managing these risks, which have been applied throughout the year, are summarised below.

Market Price Risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the corporate objective. Securities held by the Company are valued at mid-market prices, where material unlisted investments are valued by the Directors on the basis of latest information in line with the relevant principles of the British Venture Capital Association Guidelines (Accounting Policy (b)). These valuations also represent the fair value of the investments.

The Company has authority to write options against individual shares held within the portfolio. No such transactions were undertaken in the year under review.

Foreign Currency Risk

Herald invests on a worldwide basis and the balance sheet can be affected by movements in foreign currency exchange rates. The list of equity investments on pages 13 to 17 shows the countries in which the Company is invested. The securities in the portfolio are priced in local currency.

The Company does not hedge the sterling value of investments that are priced in other currencies. Overseas income is subject to currency fluctuations. The Company does not hedge this currency risk.

The main foreign currency exposure at 31 December 2002 is detailed in note 10 Financial assets and note 14 Financial liabilities.

Liquidity Risk

The Company's assets mainly comprise readily realisable securities. Cash balances are held with The Bank of New York. Short term flexibility is achieved by an overdraft facility of £2 million with The Bank of New York.

Interest Rate Risk

The majority of the Company's assets are equity shares and other investments which neither pay interest nor have a maturity date. However, the Company does hold Convertible Bonds and has held Treasury Stocks, the interest rate and maturity dates of which are detailed in note 10 Financial assets. Interest is accrued on sterling cash balances at a rate linked to the UK base rate.

At the year end the Company had borrowings totalling £22,310,000 (Yen 551,550,000 and US\$31,268,000) (2001 – £2,892,000 (Yen 551,550,000)) which become due for repayment in January 2004 and October 2003 respectively (see note 14).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Herald Investment Trust plc will be held at 12 Charterhouse Square, London EC1M 6AX on 16 April 2003 at 11.30 am for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' report, the annual accounts and the Auditors' report in respect of the year ended 31 December 2002.
2. To approve the Directors' Remuneration Report.
3. To declare a dividend of 0.85p per share in respect of the year ended 31 December 2002.
4. To re-elect Mr J P Dukes as a Director of the Company.
5. To re-elect Mr C M McCarthy as a Director of the Company.

To consider resolution No. 6, special notice having been received of the intention to propose the resolution as an ordinary resolution (see note 4).

6. To reappoint Mr M Boase, who has reached the age of 70, as a Director of the Company.
7. To reappoint Ernst & Young LLP as Auditors to the Company.
8. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following Special Resolutions:

9. THAT, the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of its issued shares of 25p each in the capital of the Company in substitution for any existing authority under section 166 of the Act but without prejudice to any exercise of any such authority prior to the date hereof.

PROVIDED ALWAYS THAT

- (i) the maximum number of shares hereby authorised to be purchased shall be 14.99% of the issued share capital on the date on which this resolution is passed;
 - (ii) the minimum price which may be paid for a share shall be 25p;
 - (iii) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations for a share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased;
 - (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors);
 - (v) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004; and
 - (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.
10. THAT, the Articles of Association of the Company be and are hereby amended by deleting the words "20 per cent." contained in Article 97(B) thereto and substituting therefor the words "30 per cent."

By order of the Board

Baillie Gifford & Co.
Secretaries

Registered Office:
12 Charterhouse Square
London EC1M 6AX
5 March 2003

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 11.30 am on 14 April 2003 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
4. In accordance with section 293 of the Companies Act 1985 special notice has been given to the Company of the resolution to reappoint a Director who is over the age of 70.
5. No Director has a contract of service with the Company.

FURTHER SHAREHOLDER INFORMATION

- **How to Invest** The Company's shares and warrants are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker or by asking a professional adviser to do so.
- **Sources of Further Information on the Trust** The price of shares and warrants is quoted daily in the *Financial Times* and that of the ordinary shares in *The Daily Telegraph* and *The Times*. The NAV per share is calculated and released daily to the London Stock Exchange and monthly to the Association of Investment Trust Companies.
- **Key Dates** Ordinary shareholders normally receive a dividend in respect of each financial year which is normally paid in April. The AGM is normally held in April. The final date for the exercise of the Warrants is 30 April 2003.
- **Taxation** The price of the Ordinary shares (adjusted for the price of attributable warrants) on 21 February 1994, which was the first day of trading, was 90.9p. Up to 5 April 1998 the basis for calculating non-trading gains or losses was the difference between that price, or any subsequent purchase price, and the sale price, using the indexation allowance for inflation. However, this indexation allowance was frozen at 5 April 1998, and replaced by a taper relief. Taper relief, however, cannot create or increase a loss. Any shareholder uncertain of his or her position is recommended to seek expert advice.
- **ISAs/PEPs** The Ordinary shares of the Company are qualifying investments for individual saving accounts and personal equity plans. PEPs ceased to be available for further investment from 5 April 1999. Any individual contemplating investment should consult his or her own adviser.

Herald is an investment trust. Investment trusts offer investors the following advantages:

- Participation in a diversified portfolio of shares.
- Constant supervision at low cost by experienced professional managers.
- Freedom from capital gains tax on capital profits realised within the portfolio.
- The opportunity to achieve improved performance for shareholders' funds in rising markets by the borrowing of additional money.

