

**HERALD INVESTMENT
TRUST plc**

Interim Report

For the six months ended 30 June 2001

Investment Policy

The policy of the Company is to achieve capital appreciation through investments in smaller quoted companies, principally in the UK but also in the rest of the world, in the areas of communications and multi-media. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies.

CHAIRMAN'S REVIEW

This is Herald Investment Trust's eighth interim statement, and we have to report a decline of 21.8% in the diluted net asset value per share. This reflects a particularly poor UK and European performance, where the decline exceeded 30%, offset by a small positive return from the Far East, and a pleasingly good positive return of c10% from the US. It remains the policy to have at least 50% of the portfolio in the UK and Europe, and the performance has benefited from the aggressive profit taking in last year's speculative bubble, so we had a lower proportion of the fund invested in the UK than we have been hitherto accustomed. Whilst the unwinding of irrationally high valuations was entirely to be expected, the scale of slow down of underlying demand has caught us by surprise. The degree to which sales expectations have been missed is unprecedented in the Manager's experience, although frustratingly explicable given the euphoria last year, which influenced customers as well as investors. Whilst the slowdown started in the first quarter of the year in the US, anecdotally there has been a sharp downward lurch in trading conditions for many UK companies in the second quarter, while the major economies of Germany and Japan continue to disappoint the most.

Capital performance of the Trust from 31 December 2000 to 30 June 2001

UK Equities	-37.4%
European Equities	-31.5%
US Equities	+9.6%
Other Overseas Equities	+5.6%

Whilst the UK performance is well below our benchmark indices we do draw attention to the fact that at the end of June the basic net assets of the fund were still 15.0% higher than the level at the end of October 1999, when the speculative bubble began. Over that time period the FTSE 100 has fallen 9.8%, the HGSCI, the principal benchmark is up 6.5%, the Russell 2000 Technology Index is down 21.0%, Techmark 100 has fallen 17.6% while the FTSEIT index and the German Neuer Markt have almost halved. In the period being reported on the sectors in which the investments in the fund are focused have been savaged.

At the start of the period Information Technology (hardware and software) accounted for 48% of total equities and UK IT stocks accounted for 31% of total equities. The FT index for this sector was down 50.0% in the first half, the FT telecomms services sector was down 35.6%, and even the media sector, which was relatively resilient, was down 26.9%. In past periods of technology weakness the media sector has provided

CHAIRMAN'S REVIEW *continued*

defensiveness – not in this environment. The decline in the FTSE Techmark was only 30.3% reflecting the positive performance of a number of pharmaceutical/biotechnology stocks in which Herald does not invest. For example the largest stock in the index is now Shire Pharmaceuticals which was up by 22.7%, while Smith and Nephew was up by 19.0%. Against this background the performance of the UK element, and more particularly the fund overall, is more satisfactory.

We cannot expect to enjoy the upside without some pain in these conditions. During the period the fund has significantly underperformed its principal benchmarks the HGSCI (ext cap gains), which was down 7.4%, and the Russell 2000 Technology Index which was down 11.7%, albeit only 6.2% in £ terms.

The revenue account has benefited from relatively high liquidity, and lower costs, as the management fee is proportional to assets which are lower than last year. The focus of the fund remains on capital growth, and as in previous years an interim dividend will not be paid. As in previous years all costs are charged to revenue.

Companies are continuing to surprise on the downside, in the UK and Europe in particular, which were later into the down cycle. We may well not have reached the bottom yet. Part of the ferociousness of current conditions is destocking and lengthening sales cycles. These will work through, and for the businesses we aim to invest in there is long term demand. However, we would caution against expecting growth rates in the IT sector for example to recover to rates of recent years too quickly. Nevertheless, with our focus on small companies, we are increasingly confident that there are, selectively, opportunities for good returns. We have invested a net £10.8m in the first half, and still have c£46m in net cash and gilts to exploit opportunities, with the potential to gear if the market gets really oversold.

Martin Boase

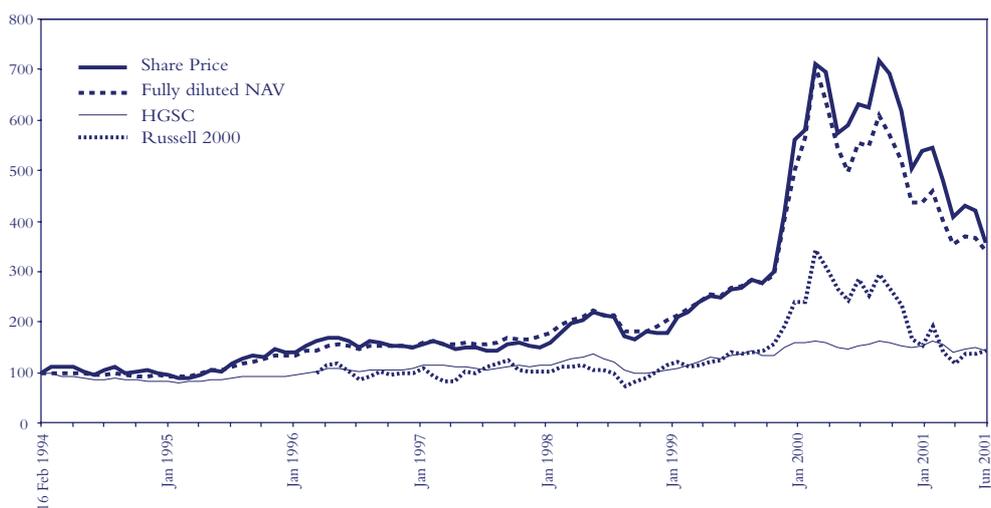
23 July 2001

SUMMARY OF PERFORMANCE

	At inception 16 February 1994	At 31 December 2000	At 30 June 2001	Performance since 31 December 2000	Performance since inception
Basic NAV per share	98.7p	447.5p	346.6p	-22.5%	+251.2%
Diluted NAV (FRS 14)	98.7p	431.4p	337.3p	-21.8%	+241.7%
Fully diluted					
NAV per share	98.7p	432.0p	337.2p	-21.9%	+241.6%
Share price	90.9p	491.0p	324.5p	-33.9%	+257.0%
Warrant price	45.5p	382.5p	217.5p	-43.1%	+378.0%
FTSE 100 Index	3,417.7	6,222.5	5,642.5	-9.3%	+65.1%
HGSC Index					
(ext. cap gains ex IT)	1,750.0	2,702.2	2,503.0	-7.4%	+43.0%
Russell 2000 (small cap)					
Technology Index	83.2*	128.3	120.3	-6.2%	+44.6%
(in sterling terms)					

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

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



STATEMENT OF TOTAL RETURN

(Unaudited and incorporating the revenue account)

	Six months to 30 June 2001			Six months to 30 June 2000		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	—	(84,324)	(84,324)	—	46,792	46,792
Unrealised gain/(loss) on loan	—	88	88	—	(100)	(100)
Currency gain	—	2	2	—	42	42
Income	2,957	—	2,957	3,308	—	3,308
Investment management fee	(1,787)	—	(1,787)	(2,795)	—	(2,795)
Finance costs of borrowings	(39)	—	(39)	(44)	—	(44)
Other administrative expenses	(137)	—	(137)	(246)	—	(246)
Net return before taxation	994	(84,234)	(83,240)	223	46,734	46,957
Tax on ordinary activities	(18)	—	(18)	(20)	—	(20)
Return on ordinary activities after taxation	976	(84,234)	(83,258)	203	46,734	46,937
Return per Ordinary share						
Basic	1.16p	(100.20p)	(99.04p)	0.24p	56.12p	56.36p
Diluted	1.12p	(96.77p)	(95.65p)	0.23p	53.71p	53.94p

The basic return per Ordinary share calculations are based on a weighted average number of shares in issue during each period. For the period to 30 June 2001, the weighted average number of Ordinary shares was 84,068,024 (30 June 2000 - 83,267,327).

The diluted returns per Ordinary share have been calculated on the weighted average warrants in issue during the period adjusted by the difference between the average price of the Ordinary shares during the period and the Subscription price of 100p, giving a weighted average of 87,045,201 (30 June 2000 - 87,015,024) shares. The unadjusted fully-diluted number of shares at 30 June 2001 was 87,807,349 compared to 87,807,349 at 30 June 2000.

There were 3,353,663 warrants in issue at 30 June 2001 (30 June 2000 - 3,933,750).

SUMMARISED BALANCE SHEET

(Unaudited)

	30 June 2001 £'000	31 December 2000 £'000
Investments at market value	284,478	365,575
Net current assets	11,363	13,032
Total assets (before deduction of bank loan)	295,841	378,607
Overseas currency loan	(3,145)	(3,233)
Total net assets	292,696	375,374
Capital and reserves		
Called-up share capital	21,113	20,968
Share premium account	69,698	68,999
Warrant reserve	1,525	1,789
Capital reserve - realised	219,652	217,867
Capital reserve - unrealised	(21,980)	64,039
Revenue reserve	2,688	1,712
Equity shareholder's funds	292,696	375,374
Net Asset Value per Ordinary share		
Basic	346.58p	447.55p
Diluted (FRS 14)	337.31p	431.43p
Fully diluted	337.16p	431.98p
Ordinary shares in issue	84,453,686	83,873,599

The overseas currency loan of yen 551,550,000 becomes due for repayment on 7 January 2004.

The diluted net asset value per ordinary share has been calculated in accordance with FRS 14 'Earnings per share'. The calculation determines the potential number of dilutive shares which would be issued on the exercise of warrants by reference to the share price (fair value) at each period end.

The fully diluted net asset value per ordinary share has been calculated on the assumption that the 3,353,663 warrants in issue at 30 June 2001 (31 December 2000 - 3,933,750) were fully exercised at 100p at each period end.

During the period 580,087 ordinary shares were issued in respect of warrants exercised on 30 April 2001. Each warrant entitles the holder to subscribe for one ordinary share at 100p on 30 April in either of the remaining years 2002 and 2003.

At the AGM on 18 April 2001 the Company's authority to buy back shares was renewed in respect of 12,572,652 ordinary shares. No shares have been bought back during the period.

SUMMARISED CASH FLOW STATEMENT

(Unaudited)

	Six months to 30 June 2001		Year to 31 December 2000	
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		901		348
Net cash outflow from servicing of finance		(41)		(83)
Total tax recovered		54		—
Financial investment				
Purchase of investments	(40,689)		(212,244)	
Sale of investments	39,681		196,392	
Currency movement	2		79	
	<hr/>		<hr/>	
Net cash outflow from financial investment		(1,006)		(15,773)
Equity dividend paid		(713)		(705)
		<hr/>		<hr/>
Net cash outflow before use of liquid resources and financing		(805)		(16,213)
Management of liquid resources[†]				
Decrease/(increase) in term deposits		4,000		(4,000)
Financing				
Issue of ordinary shares		580		912
		<hr/>		<hr/>
INCREASE/(DECREASE) IN CASH		3,775		(19,301)
		<hr/>		<hr/>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS				
Increase/(decrease) in cash in period		3,775		(19,301)
(Decrease)/increase in short term investments		(4,000)		4,000
Exchange movement		88		110
		<hr/>		<hr/>
MOVEMENT IN NET FUNDS IN PERIOD		(137)		(15,191)
NET FUNDS AT 1 JANUARY		8,997		24,188
		<hr/>		<hr/>
NET FUNDS AT 30 JUNE/31 DECEMBER		8,860		8,997
		<hr/>		<hr/>

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

The financial information for the year ended 31 December 2000 has been extracted from the full accounts, which have been filed with the Registrar of Companies and which contain an unqualified Auditors' Report.

The accounting policies applied in calculating the interim figures are consistent with those used in the Annual Financial Statements.

The Interim Report was approved by the Board on 23 July 2001.

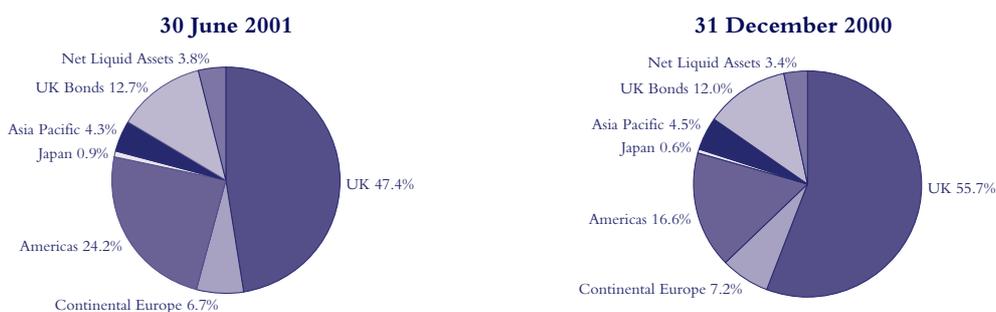
TOP TWENTY EQUITY HOLDINGS

at 30 June 2001

Company	Sector	Market value £'000	% of total assets
Anite Group	Computer software and services	6,759	2.3
Centra Software* (United States)	Computer software and services	6,040	2.1
Acal	Electronic products distribution	5,602	1.9
Telemetrix	ISDN testers and semiconductors	5,148	1.8
Azlan Group	Electronic component distribution	5,053	1.7
RSA Security* (United States)	Network security	4,786	1.6
Tempus Group	Media buying	4,770	1.6
Linx Printing Technologies	Manufacturer of continuous ink jet printers	4,449	1.5
Advent Software* (United States)	Computer software and services	4,289	1.5
Alba	Consumer electronics	4,159	1.4
Scottish Radio Holdings	Commercial radio operator	3,963	1.3
OneSource Information* (United States)	On-line database provider	3,811	1.3
Sherwood International	Insurance software	3,780	1.3
Informa Group	Conferencing and publishing	3,248	1.1
Diploma	Distributor	3,091	1.0
Lynx Group	Computer systems	3,006	1.0
MRVCommunications* (United States)	Optical network and switching products	2,992	1.0
Macrovision* (United States)	Copyright protection software	2,922	1.0
Wilmington Group	Publishing	2,735	0.9
Logitech* (Switzerland)	Computer peripheral manufacturer	2,734	0.9
		83,337	28.2

*Primary listing outwith UK

GEOGRAPHIC SPREAD OF INVESTMENTS



DIRECTORS, MANAGER AND ADVISERS

DIRECTORS

Martin Boase (Chairman)
Timothy George Abell
Clayton Mark Brendish
Justin Paul Dukes
Colin Michael McCarthy
Clive Anthony Parritt

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