HERALD INVESTMENT TRUST plc

Interim Report

For the six months ended 30 June 2005

Investment Policy

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. 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

The net assets per share have declined 3.5% in the first half. The trading background has been strong for most companies, and in general they have delivered strong earnings growth as expected. Shares have again not risen in line with earnings and the handful that have disappointed have been punished. It seems that the market continues to favour other sectors currently and is ascribing little premium for growth. The UK portfolio, which accounts for two thirds of the portfolio, returned -3.3%. In contrast the HGSC Index, which is 2/3rds of our benchmark returned 7.7%, albeit the weighted average of the most relevant sectors for our remit showed a return of only 2.0%. The IT sector, which is important to Herald, was the worst performing sector in the FTSE declining 2.4%, and by 3.5% in the HGSC smaller company benchmark. The media sector was also disappointing with the HGSC benchmark index returning -1.0%. In the US the Russell 2000 Technology index returned -11.7%, and the Trust's US portfolio -7.4%, helped by a stronger $. The European and Far East returns were satisfactory, 2.7% and 9.0% respectively.

Total return by geography from 31 December 2004 to 30 June 2005

UK Equities	-3.3%
US Equities	-7.4%
European Equities	+2.7%
Far East Equities	+9.0%

The most encouraging aspect of the first half is that the profit expectations forecast by brokers at the start of the year for the stocks in the portfolio have remained intact, which implies overall earnings growth this year above 60% for the portfolio, and more importantly a p/e for 2005 of 15-17.5x. This appears to offer sound value while profits momentum continues. The portfolio is a microcosm of the global economy, and the consumer stocks which have been strong for several years in the UK are finding trading more challenging, while for the companies supplying corporate capital expenditure trading seems a little easier. Traditional media is generally tough, but new media is coming of age and showing substantial profitable growth. This year there have been three bids in the UK portfolio – Marlborough Sterling, Attentiv, Scottish Radio Holdings and more recently Moneybox. While interest remains low, and companies are generally cash generative, we expect corporate activity to underpin valuations if investors remain disinterested.

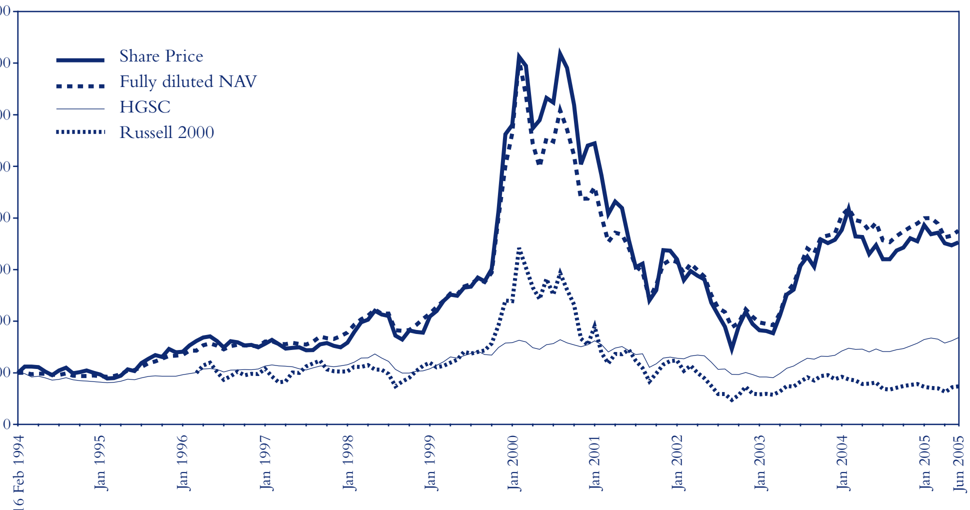
Other notable features of the market have been the stream of new issues on to AIM, a relative absence of new issues in Europe and a modest flow in the US. AIM is providing a flow of capital to emerging companies, of which we approve in principle, albeit sometimes we question the quality. There are now in excess of 400 companies on AIM in Herald's target sector. It would be disappointing if a handful did not break-out to become strong companies, because the UK suffers from a shortage of long term success stories.

A number of new Financial Reporting Standards have been adopted for the first time this year, which has required a restatement of prior year's figures. The adoption of these Standards has changed the basis of valuation of investments and the treatment of dividends. Note 1 to the accounts explains these changes in accounting treatment and the impact upon prior year's reported figures in more detail. As in previous years there will not be an interim dividend. Dividend growth and increased interest income has led to income growth in the first half.

There remain macro uncertainties with rising oil prices and terrorism, but we believe that companies in our focus are in a strong position to withstand the environment, and that equities in general offer sound value. In our sectors in particular the market is not ascribing a premium for growth.

Martin Boase
28 July 2005

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)



Past performance is no guarantee of future performance.

STATEMENT OF TOTAL RETURN

(Unaudited and incorporating the revenue account*)

	for the six months ended 30 June 2005		
	Revenue £'000	**Capital £'000**	**Total £'000**
(Losses)/gains on investments	—	(9,946)	(9,946)
Unrealised (losses)/gains on loans	—	(1,753)	(1,753)
Currency (losses)/gains	—	(7)	(7)
Income	2,839	—	2,839
Investment management fee	(1,828)	—	(1,828)
Other administrative expenses	(118)	—	(118)
Net return before finance costs and taxation	893	(11,706)	(10,813)
Finance costs of borrowings	(392)	—	(392)
Return on ordinary activities before taxation	501	(11,706)	(11,205)
Tax on ordinary activities	(40)	—	(40)
Return on ordinary activities after taxation	461	(11,706)	(11,245)
Return per Ordinary share (note 3)	0.53p	(13.37p)	(12.84p)
Weighted average number of ordinary shares in issue during each period	87,556,010		

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

† Restated, see note 1.

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

SUMMARY OF PERFORMANCE

	At inception 16 February 1994	**At 31 December 2004**	**At 30 June 2005**	**Performance since 31 December 2004**	**Performance since inception**
NAV per share	98.7p	379.4p †	**366.3p**	(3.5%)	271.1%
Share price	90.9p	321.5p ‡	**316.0p** ‡	(1.7%)	247.6%
FTSE 100 Index	3,417.7	4,814.3	**5,113.2**	6.2%	49.6%
HGSC Index (ext. cap gains ex. investment companies)	1,750.0	2,752.2	**2,939.3**	6.8%	68.0%
Russell 2000 (small cap) Technology Index (in sterling terms)	83.2*	65.1	**61.6**	(5.4%)	(26.0%)

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

† Restated, see note 1.

‡ Bid.

Past performance is no guarantee of future performance.

STATEMENT OF TOTAL RETURN

(Unaudited and incorporating the revenue account*)

for the six months ended 30 June 2004			for the year ended 31 December 2004		
Revenue £'000	Capital Restated† £'000	Total Restated† £'000	Revenue £'000	Capital Restated† £'000	Total Restated† £'000
—	17,534	17,534	—	14,645	14,645
—	215	215	—	1,813	1,813
—	174	174	—	(29)	(29)
2,375	—	2,375	4,776	—	4,776
(1,905)	—	(1,905)	(3,671)	—	(3,671)
(129)	—	(129)	(267)	—	(267)
341	17,923	18,264	838	16,429	17,267
(232)	—	(232)	(501)	—	(501)
109	17,923	18,032	337	16,429	16,766
(30)	—	(30)	(36)	—	(36)
79	17,923	18,002	301	16,429	16,730
0.09p	20.41p	20.50p	0.34p	18.73p	19.07p
87,807,348			87,745,357		

SUMMARISED BALANCE SHEET

(Unaudited)

	at 30 June 2005 £'000	Restated† at 30 June 2004 £'000	Restated† at 31 December 2004 £'000
Fixed assets			
Investments	**317,723**	329,462	320,546
Current assets			
Debtors	**1,225**	2,192	1,880
Cash and short term deposits	**29,887**	29,498	34,907
	31,112	31,690	36,787
Creditors: Amounts falling due within 1 year			
(excluding short-term borrowings)	**(1,716)**	(816)	(459)
Total assets (before deduction of bank loans)	**347,119**	360,336	356,874
Bank loans (note 4)	**(26,416)**	(26,110)	(24,663)
Total net assets	**320,703**	334,226	332,211
Capital and reserves			
Called-up share capital	**21,889**	21,952	21,889
Share premium	**73,738**	73,738	73,738
Capital redemption reserve	**63**	—	63
Capital reserve – realised	**209,754**	195,895	202,442
Capital reserve – unrealised	**12,699**	40,501	31,717
Revenue reserve	**2,560**	2,140	2,362
Equity shareholders' funds	**320,703**	334,226	332,211
Net Asset Value per Ordinary share	**366.28p**	380.64p	379.43p
Ordinary shares in issue (note 5)	**87,556,010**	87,807,348	87,556,010

† Restated, see note 1.

SUMMARISED CASH FLOW STATEMENT

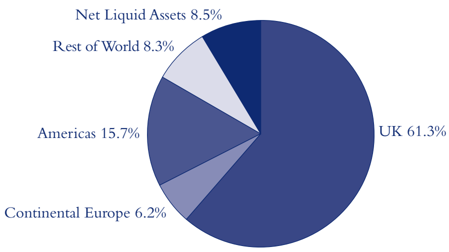
(Unaudited)

	For six months ended 30 June 2005 £'000	For six months ended 30 June 2004 £'000	For year ended 31 December 2004 £'000
Net cash inflow from operating activities	**828**	263	762
Net cash outflow from servicing of finance	**(328)**	(265)	(495)
Financial investment			
Purchase of investments	**(31,889)**	(39,020)	(65,423)
Sale of investments	**26,632**	52,993	85,279
Net cash (outflow)/inflow from financial investment	**(5,257)**	13,973	19,856
Equity dividend paid	**(263)**	(263)	(263)
Net cash (outflow)/inflow before financing	**(5,020)**	13,708	19,860
Financing			
Loans drawn down	**24,771**	—	25,769
Loans repaid	**(24,771)**	(2,849)	(28,618)
Shares repurchased	**—**	—	(743)
Net cash outflow from financing	**—**	(2,849)	(3,592)
(DECREASE)/INCREASE IN CASH	**(5,020)**	10,859	16,268
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS			
(Decrease)/increase in cash in period	**(5,020)**	10,859	16,268
Increase in bank loans	**997**	2,849	2,849
Exchange movement on loans	**(2,750)**	366	1,813
MOVEMENT IN NET (DEBT)/FUNDS IN PERIOD	**(6,773)**	14,074	20,930
NET FUNDS/(DEBT) AT 1 JANUARY	**10,244**	(10,686)	(10,686)
NET FUNDS AT 30 JUNE/31 DECEMBER	**3,471**	3,388	10,244
RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Net revenue before finance costs and taxation	**893**	341	838
Changes in debtors and creditors	**(14)**	(69)	—
Income tax suffered	**(4)**	(2)	(11)
Realised currency (loss)/gain	**(7)**	23	(29)
Overseas tax suffered	**(40)**	(30)	(36)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**828**	263	762

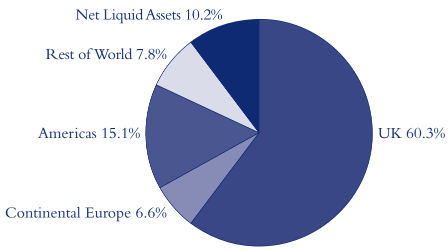
GEOGRAPHIC SPREAD OF INVESTMENTS

(Distribution of total assets*)

30 June 2005



31 December 2004†



* Total assets before deduction of bank loans.

† Restated, see note 1.

TOP TWENTY EQUITY HOLDINGS

at 30 June 2005

Company	Business	Market value £'000	% of total assets*
Northgate Information Solutions	Application software products and services	13,435	3.9
Amstrad	Consumer electronics designer and manufacturer	9,041	2.6
Imagination Technologies	Licenser of semiconductor intellectual property	7,574	2.2
Detica Group	IT services business focused on security and CRM	7,525	2.2
SDL	Internet software and website globalisation services	6,750	1.9
Diploma	Distributor	6,435	1.8
Incisive Media	Magazine publisher	5,727	1.6
Thomson Intermedia	Media monitoring services	5,348	1.5
Plasmon	Optical data storage designer and manufacturer	4,739	1.4
Alphameric	Retail and bookmaking software	4,718	1.4
SurfControl	Web and e-mail filtering software	4,392	1.3
Scottish Radio Holdings	Radio station operator and newspaper publisher	4,390	1.3
Euromoney Institutional Investor	Magazine publisher	4,297	1.2
ICM Computer Group	IT assurance and disaster recovery services	4,288	1.2
IBS Opensystems	Software and services for management of benefits and housing	4,118	1.2
Phoenix IT Group	IT support and business continuity services	3,825	1.1
Bloomsbury Publishing	Book publisher	3,750	1.1
Innovision Research & Technology	Radio frequency ID technology	3,695	1.1
Taylor Nelson Sofres	Market research	3,631	1.0
Wilmington Group	Business magazine publisher and training company	3,453	1.0
		111,131	32.0

* Total assets before deduction of bank loans.

NOTES

1 A number of new UK Financial Reporting Standards have been introduced with which the Company must comply by its 31 December 2005 financial year end. These standards are part of the UK convergence programme with International Accounting Standards and have required restatement of prior year figures to reflect the new accounting treatment. The Financial Statements for the six months to 30 June 2005 have been prepared on the basis of the accounting policies set out in the Company's Annual Financial Statements at 31 December 2004 except as detailed below.

a) Investments have been valued at fair value through profit and loss in accordance with FRS 26, Financial Instruments: Measurement. The effect is to move from a mid to a bid basis of valuation, resulting in a reduction in the value of investments and unrealised capital reserves of £4,155,000 (30 June 2004 – £4,626,000; 31 December 2004 – £4,622,000).

b) In compliance with FRS 21, Events After The Balance Sheet Date, dividends declared after the period end are no longer treated as a liability at the period end. The effect is to reduce creditors and increase revenue reserves by £263,000 as at 31 December 2004.

c) Changes in Company Law prohibit the disclosure of dividends on the face of the Statement of Total Return. As a result, dividends paid and proposed have been included in the notes to the accounts.

The overall effect of the above changes is to decrease equity shareholders funds by £4,155,000 (30 June 2004 – £4,626,000; 31 December 2004 – £4,359,000). The effect on the profit and loss account is an increase in unrealised gains on investments of £467,000 (30 June 2004 – £34,000; 31 December 2004 – £38,000) which is shown in the capital returns.

2 The amount recognised as a distribution in the six months to 30 June 2005 was the final dividend for the year ended 2004 of 0.30p (£263,000) which was paid on 19 April 2005 (six months to 30 June 2004 and year to 31 December 2004 was the final dividend for the year ended 2003 of 0.30p (£263,000) which was paid on 20 April 2004).

No interim dividend will be declared.

3 The capital and revenue returns per Ordinary share calculations are based on a weighted average number of shares in issue during each period.

4 The Company has arranged a multi-currency loan facility with ING Bank N.V. which comprises a 364 day £30 million facility which expires on 25 October 2005. At 30 June 2005 there were outstanding drawings of US$47.35 million (30 June 2004 and 31 December 2004 – US$47.35 million).

5 At the AGM held on 13 April 2005 the Company's authority to buy back shares was renewed in respect of 13,124,645 Ordinary shares (equivalent to 14.99% of its issued share capital at that date). No shares have been bought back during the period and therefore at 30 June 2005 the Company's authority to buy back shares remains unchanged at 13,124,645.

6 The financial information contained within this interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2004 has been extracted from the statutory accounts which have been filed with the Registrar of Companies and which contain an unqualified Auditors' Report and do not contain a statement under sections 237 (2) or (3) of the Companies Act 1985.

7 The Interim Report was approved by the Board on 28 July 2005.

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

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