

# HERALD INVESTMENT TRUST PLC

## Interim Report

This report covers the period from 10 December 1993  
to 30 June 1994

### Investment Policy

The policy of the Company is to achieve capital appreciation through investments in smaller quoted companies, principally in the UK but also Continental Europe, in the area 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

It transpired that the launch of Herald coincided with a downturn in the US fixed interest market. This led to the adoption of a cautious initial approach to investment which was vindicated by a subsequent decline in the UK equity market.

In order to ensure the Company's tax status as an investment trust, initial investments were made in short dated index linked gilts. Although it was frustrating to incur losses through these investments, the losses were small in relation to the overall correction in both the equity and gilt markets. This factor, combined with a selective approach to investing in relevant companies, contributed to a decline in net assets from the amount raised net of expenses of only 3.7%, compared to a decline in the FTSE of 14.6% and a decline in both the FTSE-Small Cap Index and the Hoare Govett Smaller Companies Index (capital gains excluding investment trusts) of 14.2% in the period to 30 June 1994.

	Inception	End June	End August
Herald NAV/Share	98.7*	95.0	97.6
% change since inception		- 3.7%	- 1.1%
FTSE % change since inception		- 14.6%	- 4.9%
HGSC % change since inception		- 14.2%	- 9.6%

\* The NAV/share raised net of expenses on 16/2/94, when 65m shares were placed at 100p per share with warrants attached on a 1 for 5 basis.

The ensuing weakness in the equity market, during the latter part of the period under review, had the positive effect of enabling the manager to accumulate stakes in smaller companies, and by the end of June the fund was 58.7% invested in its target sectors.

The target universe of the trust is smaller companies in the communications area in the broadest sense, and the portfolio is focused on the media, support services and electronic equipment area. As well as providing liquidity, the market weakness also had the beneficial effect of blowing away some of the speculative froth, particularly evident in some start-up companies in the multi-media area which have caught the imagination of the investment community. Some particularly disappointing figures from certain companies in the computer services area have led to a widespread derating, but this has led to a more sensible approach to valuation.

In addition, the universe continues to offer a number of companies with above average growth prospects, reflecting the stimulation of new markets through technology or structural market shifts or leverage to general economic growth. Examples are the growth in advertising revenues, particularly in the radio market, and the growth in recruitment, particularly in the computer software area. On the whole the manager has found better value in recovery situations, from companies with strong balance sheets and high levels of turnover but thin or negative margins in recent years, than in the proliferation of new issues, the flow of which has now abated.

During July and August the equity market rallied. Some of Herald's outperformance as reflected in this report has therefore inevitably been given up because the fund was not fully invested at the end of June. Nevertheless, positive progress has been made. At the time of writing, with approximately 80% in equities, the trust is moving towards a state of being fully invested.

**Martin Boase**

## SUMMARISED REVENUE ACCOUNT

for the period from incorporation on 10 December 1993 to 30 June 1994

	£000	Earnings per Share
Investment income – franked	22	
– unfranked	318	
– total	340	
Other income – bank interest	271	
– underwriting commissions	14	
– total	285	
<b>Total income</b>	<b>625</b>	
Administration expenses	311	
<b>Profit before tax</b>	<b>314</b>	
Taxation	80	
<b>Profit after tax</b>	<b>234</b>	
Earnings per ordinary share		0.36p

## SUMMARISED BALANCE SHEET

at 30 June 1994

	£000	Net assets per Share
Investments at market value	62,511	
Net current liabilities	(532)	
<b>Total net assets</b>	<b>61,979</b>	
less: current period revenue	(234)	
<b>Net asset valuation</b>	<b>61,745</b>	
Net assets per ordinary share		95.0p

These financial statements are not the Company's statutory accounts for the purposes of Section 240 of the Companies Act 1985. They are unaudited, but have been reviewed by the auditors, whose report to the directors is attached.

The interim report will be sent to shareholders and copies will be made available to the public at the registered office of the Company

The dividend in respect of the financial period to the end of December 1994 will be paid in April 1995.

Ernst & Young  
Chartered Accountants  
Rolls House  
7 Rolls Buildings  
Fetter Lane  
London EC4A 1NH

*Report of the auditors to Herald Investment Trust plc*

We have reviewed that interim financial information set out on page 3 in respect of the period ended 30 June 1994, which is the responsibility of, and has been approved by, the Directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin, *Review of interim financial information*, issued by the Auditing Practices Board. This review consisted principally of obtaining an understanding of the process for the preparation of the interim financial information, applying analytical procedures to the underlying financial data, assessing whether accounting policies established by the Directors have been properly applied, and making enquiries of the company's management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- we are not aware of any material modifications that should be made to the interim financial information as presented; and
- in our opinion the interim financial information has been prepared using the accounting policies laid down by the Directors.

Ernst & Young  
Chartered Accountants

26 September 1994

## TOP TWENTY HOLDINGS

(in companies, by market value at 30 June 1994)

		£000	% of portfolio
Aegis Group	Media strategy, planning and buying	2,133	3.4%
VCI	Video publishing and distribution	1,782	2.85%
CRT Group	IT recruitment and training	1,761	2.8%
Coda Group	Computer software	1,737	2.8%
Chrysalis Group	Entertainment	1,730	2.8%
Draka Holdings	Communication cables	1,620	2.6%
Electronic Data Processing	Computer distribution, software etc	1,524	2.4%
Gold Greenlees Trott	Advertising	1,504	2.4%
Dorling Kindersley Holdings	Book and CD-ROM publishing	1,500	2.4%
CentreGold	Computer games publisher/distributor	1,212	1.95%
Unipalm Group	Internet software and services	1,150	1.8%
Midland Independent News	Newspaper	1,113	1.8%
Amstrad	Consumer electronics	1,069	1.7%
Domino Printing Sciences	Inkjet printing	1,012	1.6%
Sysdeco Group	Computer software	989	1.6%
Pegasus Group	Computer software	837	1.3%
Watmoughs Holdings	Printing	808	1.3%
Superscape VR	Computer software	750	1.2%
Peek	Traffic and field data systems	745	1.2%
Micro Focus Group	Computer software	710	1.1%
Other investments in companies		10,693	17.2%
Index linked gilts		26,132	41.8%
<b>Total Portfolio</b>		<b>62,511</b>	<b>100.0%</b>

## DIRECTORS AND ADVISERS

Directors	Martin Boase (Chairman) Timothy George Abell Justin Paul Dukes Colin Michael McCarthy Clive Anthony Parritt
Investment Manager	Miss K. J. Potts Rutherford Communication Managers Ltd. 99 Charterhouse Street London EC1M 6HR
Secretary & Registered Office	Cavendish Administration Ltd. 99 Charterhouse Street London EC1M 6HR
Stockbrokers	S. G. Warburg Securities Ltd. 1 Finsbury Avenue London EC2M 2PA
Solicitors	Stephenson Harwood One, St Paul's Churchyard London EC4M 8SH
Auditors	Ernst & Young Rolls House 7 Rolls Buildings Fetter Lane London EC4A 1NH
Custodians and Bankers	The Royal Bank of Scotland plc Regent's House 42 Islington High Street London N1 8XL
Registrars	Northern Registrars Ltd. Northern House Penistone Road Fenay Bridge Huddersfield HD8 0LA