HERALD INVESTMENT TRUST plc
ANNUAL REPORT &
FINANCIAL STATEMENTS
31 December 2014

Company Number 02879728 (England and Wales)

CONTENTS

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in Herald Investment Trust plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

COMPANY SUMMARY

COMPANY DATA AT 31 DECEMBER 2014		
Total assets†	**Shareholders' funds**	**Market capitalisation**
£667m	**£629m**	**£510m**

† Before deduction of bank loans and derivative financial instruments.

Policy and Objective	Herald's objective is to achieve capital appreciation through investments in smaller quoted companies in the areas of telecommunications, multimedia and technology (TMT). Investments may be made across 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. The Company's investment policy is contained within the Strategic Report on page 22.
Comparative Index	The portfolio comparative index against which performance is measured is 2/3 Numis Smaller Companies Index (previously Hoare Govett Smaller Companies Index) plus AIM (ex. investment companies) and 1/3 Russell 2000 (small cap) Technology Index (in sterling terms). Though we consider this comparative index to provide a reasonable base for measuring the Company's performance, the portfolio is not modelled on it and outcomes may diverge widely.
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 delegated to The Bank of New York Mellon and company secretarial duties to Law Debenture Corporate Services Limited.
Capital Structure	The Company's share capital consists of 77,339,546 ordinary shares of 25p each which are issued and fully paid. The Company has been granted authority to buy back a limited number of its own ordinary shares for cancellation. During the year 340,000 ordinary shares were bought back and cancelled. The Directors are seeking to renew this authority at the forthcoming Annual General Meeting.
Management Fee	HIML's annual remuneration is 1.0% of the Company's net asset value based on middle market prices, calculated on a monthly basis payable in arrears.
Continuation	At the Annual General Meeting of the Company held in April 2013 shareholders voted in favour of the Company's continuing to operate as an investment trust. The next continuation vote will be at the Annual General Meeting in April 2016 and every third year thereafter.
AIC	The Company is a member of the Association of Investment Companies.

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

Investment trusts are UK public listed companies and as such comply with the listing rules of the UK Listing Authority, which is a division of the Financial Conduct Authority.

YEAR'S SUMMARY

	31 December 2014	31 December 2013	% change
Total assets (before deduction of bank loans and derivative financial instruments)	£667.4m	£662.5m	
Bank loans	£25.0m	£25.0m	
Derivative financial instruments	£13.5m	£13.9m	
Shareholders' funds	£628.9m	£623.6m	
Net asset value per ordinary share	813.2p	802.8p	1.3
Share price	659.0p	685.0p	(3.8)
Numis Smaller Companies Index plus AIM (ex. investment companies)	4,390.7	4,728.3	(7.1)
Russell 2000 (small cap) Technology Index (in sterling terms)	1,450.3	1,269.4	14.3
Composite comparative index			(0.2)
Dividend per ordinary share	–	–	
Revenue earnings per ordinary share	(1.89p)	(0.39p)	
Ongoing charges*	1.07%	1.04%	
Discount to NAV	19.0%	14.7%	

Year to 31 December	2014	2014	2013	2013
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	745p	594p	694p	513p
Net asset value	845.63p	729.75p	803.33p	613.8p
Discount	19.6%	10.7%	21.5%	12.3%

At 31 December	**2014**	**2013**
Net return per ordinary share		
Revenue	(1.89p)	(0.39p)
Capital	11.59p	168.50p
Total	9.70p	168.11p

*Ongoing charges calculated in accordance with AIC guidelines: annualised charges, excluding interest, incurred by the Company, expressed as a percentage of the average net asset value.

Source: Thomson Reuters Datastream

† ²/₃ Numis Smaller Companies Index plus AIM (ex. investment companies) and ¹/₃ Russell 2000 (small cap) Technology Index (in sterling terms).

Past performance is not a guide to future performance.

LONG TERM PERFORMANCE SUMMARY

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

	31 December 2014	Inception 16 February 1994	% change
Net asset value per ordinary share (including current year income)	813.2p	98.7p	723.9
Net asset value per ordinary share (excluding current year income)	815.1p	98.7p	725.8
Share price	659.0p	90.9p	625.0
Numis Smaller Companies Index plus AIM (ex. investment companies)	4,390.7	1,750.0	150.9
Russell 2000 (small cap) Technology Index (in sterling terms)†	1,450.3	688.7*	110.6

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

† The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents. The rebased index is used from 31 December 2008 onwards.

Source: Thomson Reuters Datastream

Source: Thomson Reuters Datastream

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

From 1 January 2006, the comparative index was changed to $^{2}/_{3}$ Numis Smaller Companies Index (previously Hoare Govett Smaller Companies Index) plus AIM (ex. investment companies) and $^{1}/_{3}$ Russell 2000 (small cap) Technology Index (in sterling terms).

DIRECTORS, MANAGER AND ADVISERS

Directors

Julian Cazalet was appointed to the Board in 2008 and became Chairman in 2009. He was managing director – corporate finance at JPMorgan Cazenove until his retirement in December 2007. A Chartered Accountant, he joined Cazenove in 1973 and was made a Partner in 1978. From 1989 he worked in Corporate Finance and advised investment trusts in addition to his work with industrial and commercial companies. He is a director of The Lindsell Train Investment Trust plc, Deltex Medical Group plc, Private Equity Investor plc and a number of charitable trusts.

Douglas McDougall, OBE was appointed to the Board in 2002 and is Chairman of the Audit Committee and the senior independent director. He has extensive experience in the fund management industry and is a former senior partner of Baillie Gifford & Co. He is chairman of The European Investment Trust plc, The Independent Investment Trust PLC and The Scottish Investment Trust PLC and is a director of The Monks Investment Trust PLC and Pacific Horizon Investment Trust PLC. He is a former chairman of IMRO, of the Association of Investment Companies and of the Fund Managers' Association.

Stewart Newton was appointed to the Board in 2012. He is chairman of Veritas Investment Partners Limited and is non-executive director of Solon Ventures Limited. He was the founder and executive chairman of Newton Investment Management from 1977–2002. He is a Council Member at Imperial College, where he is chairman of the committee managing the College Fund.

Tom Black was appointed to the Board on 1 May 2013. He is Chairman and Co-Founder of Digital Barriers plc, and is a non-executive director of Pinnacle Technology Group plc. He has advisory roles with a number of smaller unlisted businesses and sits on the Strategy Advisory Group of Wolfson College Oxford. He was previously Chief Executive of Detica Plc, a leading company in the field of large-scale information collection and analysis for intelligence and counter fraud applications.

Secretary

Law Debenture
Corporate Services
Limited

Registered Office

10–11 Charterhouse Square
London EC1M 6EE

Administrator

The Bank of New York
Mellon

Company Number

02879728 (England and Wales)

Alternative Investment Fund Manager and Portfolio Manager

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

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10–11 Charterhouse Square
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Website: www.heralduk.com
E-mail: info@heralduk.com

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20 Cursitor Street
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Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
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Tel: 0871 664 0300
(calls cost 10p per minute plus network extras, lines are open 8.30 am to 5.30 pm Monday–Friday)
Website: www.capitaassetservices.com
E-mail: shareholder.services@capitaassetservices.com

Depositary
BNY Mellon Trust & Depositary
(UK) Limited
160 Queen Victoria Street
London
EC4V 7LA

CHAIRMAN'S STATEMENT

I am delighted to report Herald's net asset value per share closed its 21st year at a record high of 813.2 p (+1.3%). The UK portfolio returned only 0.4% in 2014, but this exceeded the Numis Smaller Companies Index excluding investment companies and including AIM ("NSCI"), which declined 4.8%. Furthermore the weighted return of the target sectors in which Herald invests declined somewhat more than the wider index. Most of the investee companies delivered solid performances, and a number of mishaps in the sector were avoided. The UK smaller companies market as a whole suffered from conspicuously heavy redemptions in open ended smaller company funds which constrained share price appreciation, but provides a better base for 2015. The US market performed better, and the Company's North American portfolio appreciated 13.5% in sterling versus the Russell 2000 Technology Index rising 14.8%. This return was significantly lower than the return of the large technology companies index (Russell 1000 Technology Index £ return +27.3%), which was driven by Apple and Microsoft, the two largest components of the index. The EMEA portfolio (Europe Middle East and Africa) is small but appreciated by 19.6%, and Asia's total return was 11.1%. The worst performing element of the portfolio was the interest rate swap which was taken out in 2008 to protect aganst potential interest rates rises. This year's fall in long term interest rates has wrong footed us. The capital loss during the year was nearly £10m. Towards the end of the year we took the decision to close half of this position.

The year has again produced a succession of takeovers with an aggregate value of £53m, and £9m of cash was received from takeovers announced in 2013. This takes the total value of takeovers over the last eight years to £308m. This is material in the context of the capital raised in the fund. £65m was raised in 1994, and a further £30m in 1996, and net outside capital after share buy backs is only £55m. In the UK it was disappointing to see Wolfson and CSR lose their independence because they were two potentially scalable businesses and at one stage appeared able to compete on the world stage. The currently challenging market conditions meant the takeover premiums were appreciated. We were also sad to see Allocate Software taken over by private equity. Herald Investment Trust plc together with Herald Ventures underwrote a rescue £2m funding for Allocate in April 2002 at 13p when the market value was only £5m, exiting at 155p. Since then the shares have delivered a compound annual growth of 22%. A number of the Company's US long term holdings have also been acquired including Supertex, ATMI, Micros Systems, Actuate and Spansion.

In the market as a whole this year, takeovers have been offset by a stream of investments in IPOs and secondary offerings. In 2014 the Company participated in 52 new issues or secondary placings with an aggregate value of £36.5m. The larger new issues in both the UK and US have generally been at high valuations and the smaller earlier stage ones have offered more value, albeit they may take time to give returns. There was a period when we were besieged with offerings which were hard to digest, and we have been reluctant to take too many early stage positions in the UK. In the US there are many interesting companies, but value has been hard to find. We have retained the cash from US takeovers in dollars and continue to seek opportunities.

Regulation has been a heavy burden on our time this year for both the Board and the Manager. The Company is now regulated as an Alternative Investment Fund, and Herald Investment Management Ltd has been appointed as the Alternative Investment Fund Manager, but the regulatory effects have been wide ranging, because counterparties including investors are affected in different ways and require different information. It is to be hoped that we will be able to give greater focus again to the business of wealth creation in the coming year.

The Company shows a deficit on the income account again in 2014, so a dividend will not be paid in 2015. There has only been a deficit in two previous years, 2007 and 2013. This deterioration reflects an absence of income on cash deposits and Government bonds that have been held as surrogates for cash delivering low income. Furthermore, aggregate dividends declined marginally in 2013, and have declined further in 2014 albeit by less than 1%. This reflects portfolio mix as profitable dividend paying companies have been taken over. Two UK companies have significantly cut dividends, which has offset growth in other companies' dividends. The closure of half the interest rate swap position will reduce the interest charge by approximately £1m in 2015.

Since inception, the NAV/share has appreciated over eight times and the UK portfolio has delivered a time weighted return of 1,031%. Over this period the total return of the FTSE-100 has been 298%. The technology sector overall has benefited from the continuing pervasiveness of the internet, but in many cases this represents revenue shifts within the sector, as new companies challenge legacy suppliers. While we cannot see any mega trends which will make easy wins in the technology space in the short term, we remain convinced that entrepreneurially managed small companies continue to have the ability to exploit opportunities, and offer much greater scope for profitable investor returns than large companies. The TMT space remains ripe for entrepreneurial opportunity as technology continues to open up new markets. The price for higher potential upside is poorer liquidity.

The recent weakness of sterling relative to the dollar will drive stronger growth in UK profits in 2015. Over the years we have endeavoured to hold a balance of high risk early stage pre-profit companies, offset by a portfolio in more mature profitable, dividend paying companies. The more mature companies have become more expensive than we have experienced in recent years, and takeovers have been focussed on these more mature companies. Consequently, there is the temptation to move to higher risk earlier stage companies where there remains such a shortage of capital. This, combined with macroeconomic uncertainties, tempers our enthusiasm, but that is more than offset by the difficulty of finding more attractive investment opportunities elsewhere, and the realisation that some of the best returns over the years have come from microcaps scaling up their businesses.

Stewart Newton has asked to step down from the board at the conclusion of the AGM on 21 April 2015. We are very grateful to Stewart for his contribution over the last three years and will miss his experience and wise counsel. We wish him well for the future.

Julian Cazalet

Julian Cazalet
Chairman
26 February 2015

INVESTMENT MANAGER'S REPORT

This year the NAV has only appreciated 1.3% versus 26.9% last year. However in 2013 the performance of underlying investee companies had disappointed more than pleased. In 2014 the reverse has occurred. Performance has been solid, but share prices dull.

UK

There have been a number of high profile poor performing companies in the UK TMT sector including Quindell, Monitise, Carclo, Aveva, Spirent, Blinkx and Xaar, none of which we held. It seems to have been a year when avoiding the blow-ups was more important than being in the winners. The weighted total return of the TMT sectors within the Numis index has been -6.6% in 2014, and the positive return of 0.4% on our UK portfolio, though modest, is satisfactory. Importantly, the blow ups reflect the fact that the sector became a little frothy in the fourth quarter of 2013, and these particular stocks were on valuations that we could not understand, so to us they have been reassuringly grounded.

Allocate gave the best monetary return for the year following the takeover by private equity. The weakest returns came from Digital Barriers, where the market has punished an early stage company failing to develop as quickly as hoped, and Euromoney and Telecom Plus, which have been excellent long term performers, but gave back profits in 2014.

It is a relief that the stream of new issues has abated and we declined many, which were of mixed quality. I worry that commissions to brokers have been cut, driving an even greater dependency of income from corporate clients. The recurring income derived from being a nominated advisor is sensible, and indeed this system is conspicuously better than elsewhere in the world including the US. It means that stocks do not get totally orphaned and provides a base of solid income for brokers, but the increased dependency on corporate fees is potentially damaging to the long term health of the market. It is only with a vibrant secondary market that the quoted stock market can realistically provide primary capital to companies. In the last few years too much of our return has come from takeover premiums, because the market has not been functioning sensibly while pension funds and insurance companies have been persistently selling holdings in order to reduce their exposure to UK equities. In 1994, they owned 60% of the market, but by 1998 that had fallen to 43.3%, and is now c.10%. Reassuringly they have little left to sell, and there remain more investable propositions than available capital. There is no shortage of entrepreneurialism in the UK, but there is a shortage of larger companies to train people in deep technical skills.

For the first time since 2000, there are anecdotal signs that there is an IT skills shortage in London. Too many people were sucked into the industry in the late 1990s, and then a big shift occurred as outsourcing to India became the fashion. This trend seems to be at least in part reversing, and the financial sector is recovering to more normal levels of investment. There are even signs that there is less of a race to offshore manufacturing. It seems that, thanks to working tax credits and immigrant labour, the UK has become more competitive in terms of labour costs, while inflation in Chinese labour costs is conspicuously making China a less desirable outsourcing country.

North America

The US has outperformed the UK. The relative strength of the US economy, with its new found oil and gas wealth and dominance in the computer sector, combined with its political stability, has attracted capital. Performance has been quite binary. There have been momentum stocks on valuations that we do not understand, and value stocks many of which have been acquired in takeovers. In fact this year the US portfolio has seen takeovers of £30m, which is 22% of the US portfolio's value at the start of 2014. The US continues to drive the technology sector, and has been so much more effective at scaling profitable businesses than any other territory. The US understands the value of brands and IP and is prepared to invest with prolific supplies of equity. Success breeds success because the profits are recycled. However, in consequence US companies use capital much less efficiently than in the UK, which is why in the long term returns from the quoted US technology sector, whilst better than the FTSE-100, have not been as good as we have been able to achieve in the UK and Continental Europe.

EMEA

The European portfolio is small, but the long term annualised time weighted return in Europe has been 12.7% per annum, and in 2014 this rate was exceeded at 19.6% in sterling terms. This return was driven by strong performances from BE Semiconductor in the Netherlands and Nordic Semiconductor in Norway.

Asia

The Asian return was 11.1%. The pattern of larger capitalisation companies demonstrating superior share price appreciation seen in the US was repeated in Asia – this was particularly the case in Taiwan with a significant contributor to the index being TSMC, which performed well as the foundry for the Application Processor (AP) used in Apple's iPhone 6 and iPhone 6+. Conversely Samsung as the prior incumbent AP supplier to Apple lost out, and its share in mobile smart phones was hit by the success of Apple at the high end and by the Chinese phone manufacturers (in particular Xiaomi) at the low end. Over 50% of the value of the portfolio at the start of 2014 had a degree of revenue exposure to the mobile phone manufacturing supply chain. The business and share price performance of these smaller Taiwanese and Korean portfolio companies reflected the mobile phone market share shifts, typically with the Korean companies losing out in 2014.

Portfolio Split by Geography

The UK element of the portfolio remains surprisingly large. However the breakdown disclosed is by country of listing. The allocation by country of issue is somewhat different. Of course by country of end user sales, the UK is dramatically, but unquantifiably, less significant with both exports and overseas subsidiaries contributing significantly to many companies.

	By country of listing	By country of issue
UK	67%	58%
Americas	23%	20%
EMEA	4%	14%
Asia	6%	8%

Portfolio Split by Subsector

In 2014 the star performing subsector was semiconductors. Interestingly the performance was broadly based with ten companies appreciating by more than £1m, with the total sector yielding profit of £25.6m. This followed a more challenging year in 2013, when semiconductors declined modestly but the NAV appreciated 26.9%. In 2013 the star sectors were software, fixed line telecommunications and publishing.

	Market value £m 31/12/2014	% of equity portfolio 31/12/2014	Total return £m 2013	Total return £m 2014
Business Support Services	19.7	3%	4.0	(8.0)
Computer Hardware	10.5	2%	3.8	1.2
Computer Services	69.8	11%	13.7	4.7
Electrical Components & Equipment	19.1	3%	0.4	0.5
Fixed Line Telecommunications	27.0	4%	13.7	(1.5)
Internet	28.3	4%	6.2	(2.7)
Media Agencies	54.2	9%	12.5	3.0
Publishing	31.2	5%	14.4	(5.6)
Semiconductors	98.4	16%	(4.7)	25.6
Software	158.2	25%	40.9	9.1
Telecommunications Equipment	39.2	6%	14.7	5.0
Other	76.9	12%	17.8	(5.1)
Total	**632.6**	**100%**	**137.2**	**26.3**

If the regulatory changes have proved one challenge, the accountants have proved another. There is now a great deal of disclosure in company accounts, in the UK and the US, which takes effort to fathom out. Whilst we are all in favour of success being rewarded, we dislike the trend to issuing shares at below market price. In the UK there has been a surge in the issuance of nil cost options, and in the US RSUs (restricted stock units). Whilst at one level aligning managements' interests with those of shareholders is a good thing, at another level it makes it very difficult to determine the real costs to the company. When options were only issued at market price, adding back share based payments to give an adjusted EPS was not too much of a stretch. With nil cost or discounted shares issues, share based payments have become a very real cost, and an adjusted EPS figure which adds back the non-cash element is misleading in terms of company valuation. The second murky area is amortisation. Amortisation of goodwill is a non-cash item, and it is again misleading that the same term is used for amortising capitalised research and development costs. The latter is a real cash cost. In short, the adjusted EPS that companies are inclined to put in the headline results announcement has become a very flawed measure. It is the policy of the Board to discourage the approval of share issuance at any price below the market.

There has been a benign environment for salary inflation outside company boards since the financial crisis, and even since the "TMT" bubble of 1999-2000. Anecdotally we now hear of higher staff churn, skill shortages and poaching. This is particularly challenging in Silicon Valley with Apple, Google, Facebook and others driving a hot market. Furthermore there is an appetite for smart developers to move to start-ups where they dream of millions from stock options. In the UK the market for IT services has conspicuously warmed, as the financial sector has increased investment to cope with revised risk and regulatory challenges. At least sterling weakness offsets some of this cost creep in the UK.

We are often asked about "Silicon Roundabout" and the growth of the sector in East London. We are frustrated by the sloppy terminology, which does not distinguish digital media which is largely the application of technology, from the development of real technology. The latter has a greater focus in Cambridge, Oxford and in the financial sector.

Outlook

After the strong performance of 2013 the market consolidation in 2014 is quite healthy, because fundamentals have been sound. The sector continues to have anomalous valuations, some of them conceptual, while the more sensibly valued are being picked off by trade and private equity aquirors. In an uncertain political and economic world we treat fashion cautiously. We continue to be excited by the opportunities.

Katie Potts
26 February 2015

Time weighted total return by geography in sterling terms, compared with indices

	31/12/2013-31/12/2014
Asia	11.12%
Europe Middle East and Africa	19.56%
North America	13.47%
UK	0.41%
Foreign Bonds	(10.01)%
Numis Smaller companies index plus AIM (ex investment trusts)	(4.79)%
Russell 2000 (small cap) Technology Index	14.80%

Investment Changes (£'000)

	Valuation at 31 December 2013	Net acquisitions/ (disposals)	Appreciation/ (depreciation)	Valuation at 31 December 2014
Equities*				
UK	432,880	900	(4,785)	428,995
EMEA	22,680	(2,588)	3,732	23,824
North America	136,402	(9,501)	16,826	143,727
Asia Pacific	32,823	183	3,019	36,025
Total equities	624,785	(11,006)	18,792	632,571
Bonds:				
Euro bonds	19,281	(13,360)	(1,584)	4,337
Total bonds	19,281	(13,360)	(1,584)	4,337
Total investments	644,066	(24,366)	17,208	636,908
Net liquid assets	18,472	10,881	1,189	30,542
Total assets	662,538	(13,484)	18,397	667,450

The total assets figure above comprises assets less current liabilities before deduction of bank loans and derivative financial instruments.
* Equities includes convertibles and warrants.

TOP TWENTY EQUITY HOLDINGS

AT 31 DECEMBER 2014

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

Imagination Technologies Group

Imagination Technologies - a global leader in multimedia, processor, communication and cloud technologies - creates and licenses market-leading processor solutions including graphics, video, vision, CPU and embedded processing, multi-standard communications, cross-platform V.VoIP and VoLTE and cloud connectivity. These silicon and software intellectual property (IP) solutions for systems-on-chip (SoC) are complemented by an extensive portfolio of software, tools and ecosystems. Target markets include mobile phone, connected home consumer, mobile and tablet computing, in-car electronics, networking, telecoms, health, smart energy and connected sensors. Imagination has been particularly successful in selling graphics technology to the mobile phone and LCD TV sectors and is a pioneer in developing Digital Audio Broadcasting Technology (DAB). Imagination Technology incorporates this technology in its "Pure Digital" radio brand, which is a leading supplier of radios in the UK. Imagination's licensees include many of the world's leading semiconductor manufacturers, network operators and OEM/ODMs. Corporate headquarters are located in the United Kingdom, with sales and R&D offices worldwide.

Country		United Kingdom
% of total assets		3.1
% of issued share capital held		3.4
	31/12/14	31/12/13
Valuation (£m)	20.74	11.45
Shares (m)	9.08	6.45

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 sectors the company focuses on are life sciences, seals and controls.

Country		United Kingdom
% of total assets		2.4
% of issued share capital held		2.0
	31/12/14	31/12/13
Valuation (£m)	16.16	15.55
Shares (m)	2.30	2.30

SDL

SDL allows companies to optimize their customers' experience across the entire buying cycle. Through its web content management, analytics, social intelligence, campaign management and translation services, SDL helps organizations leverage data-driven insights to understand what their customers want, orchestrate relevant content and communications, and deliver engaging and contextual experiences across languages, cultures, channels and devices. SDL has over 1,500 enterprise customers, over 400 partners and a global infrastructure of 70 offices in 38 countries. SDL work with 42 of the top global 50 brands.

Country		United Kingdom
% of total assets		2.1
% of issued share capital held		4.1
	31/12/14	31/12/13
Valuation (£m)	13.91	11.31
Shares (m)	3.35	3.15

M&C Saatchi

M&C Saatchi is a global marketing services business working for clients across a wide variety of industry sectors. The Company was founded in 1995. Starting with a strong base in the UK and Australia, M & C Saatchi have added new agencies and disciplines in Asia, USA and Europe. M&C Saatchi currently has 26 offices in 18 countries.

Country		United Kingdom
% of total assets		2.0
% of issued share capital held		6.1
	31/12/14	31/12/13
Valuation (£m)	13.33	14.83
Shares (m)	4.14	4.45

Telit Communications

Telit is a global leader of machine-to-machine (M2M) communications providing wireless module technology via its brand Telit Wireless Solutions, enhanced by managed and value added services, including connectivity via its business unit m2mAIR. Telit has been dedicated to M2M communications for over 12 years and is constantly advancing technological leadership from 6 R&D centers around the globe. Telit offers an extensive portfolio of quality cellular, short-range, and GNSS modules. By supplying business scalable products interchangeable across families, technologies, and generations, Telit is able to keep development costs low and uniquely protect customers' design investments. Telit sells its products through a network of 35 sales offices to more than 5,000 customers in 80 countries around the world.

Country		United Kingdom
% of total assets		1.8
% of issued share capital held		4.4
	31/12/14	31/12/13
Valuation (£m)	12.00	8.90
Shares (m)	4.98	5.08

IDOX

Idox plc is a supplier of software solutions and services to the UK public sector and increasingly to highly regulated asset intensive industries around the world in the wider corporate sector. The Public Sector Software Division is the leading applications provider to UK local government for core functions relating to land, people and property, such as its market leading planning systems and election management software. Over 90% of UK local authorities are now customers. The Division provides public sector organisations with tools to manage information and knowledge, documents, content, business processes and workflow as well as connecting directly with the citizen via the web. The Engineering Information Management Division delivers engineering document control, project collaboration and facility management applications to many leading companies in industries such as oil & gas, architecture and construction, mining, utilities, pharmaceuticals and transportation in North America and around the world. The Group employs over 500 staff located in the UK, the USA, Europe, India and Australia.

Country		United Kingdom
% of total assets		1.7
% of issued share capital held		7.8
	31/12/14	31/12/13
Valuation (£m)	11.04	9.08
Shares (m)	27.94	27.94

SQS

The SQS Group (SQS) is a leading specialist in software quality. The company's competitive edge stems mainly from its PractiQ methodology, which is based on many years of project experience and specialist knowledge across a wide range of industries. With over 7,000 completed projects, SQS has a strong customer base, including half of the DAX-30, almost a third of the STOXX-50 and 20 FTSE-100 companies. Customers include Allianz, Beazley, BP, Centrica, Commerzbank, Daimler, Deutsche Post, Generali, JP Morgan, Meteor, Reuters, UBS and Volkswagen. Founded in Cologne in 1982, SQS employs around 3,900 staff in offices in Germany, the UK, Australia, Egypt, Finland, France, India, Ireland, Malaysia, the Netherlands, Norway, Austria, Singapore, Sweden, Switzerland, South Africa, the UAE and the US.

Country	United Kingdom	
% of total assets		1.6
% of issued share capital held		6.2
	31/12/14	31/12/13
Valuation (£m)	10.84	9.37
Shares (m)	1.89	1.89

Euromoney Institutional Investor

Euromoney is a leading international business-to-business media group focused primarily on the international finance, metals and commodities sectors. It owns more than 70 brands including *Euromoney, Institutional Investor and Metal Bulletin*, and is a leading provider of economic and investment research and data under brands including BCA Research, Ned Davis Research, and the emerging market information providers, EMIS and CEIC. It also runs an extensive portfolio of conferences, seminars and training courses for the financial and commodities markets. The group's main offices are in London, New York, Montreal and Hong Kong and more than a third of its revenues are derived from emerging markets.

Country	United Kingdom	
% of total assets		1.6
% of issued share capital held		0.8
	31/12/14	31/12/13
Valuation (£m)	10.47	13.50
Shares (m)	1.00	1.00

GB Group

GB Group, the UK's leading identity management business, helps organisations realise the full value of their customer base by recognising and verifying all elements of a consumer's identity at every interaction. Through the application of technology, GB Group protects, predicts and provides information that is used to maximise customer value for some of the largest companies in the UK. The company provides an integrated and comprehensive range of data services to clients allowing them to interact effectively with their customers, improve long term profitability and reduce fraud.

Country	United Kingdom	
% of total assets		1.6
% of issued share capital held		5.8
	31/12/14	31/12/13
Valuation (£m)	10.37	10.82
Shares (m)	7.01	7.52

Phoenix IT Group

Phoenix IT was established in 1980. The Group provides a growing range of complementary IT infrastructure support services including systems management, communications, remote telephone support, high-touch field services, project and consultancy services as well as business continuity and disaster recovery services. Often these services are sold and delivered as a managed service where Phoenix manages complex IT infrastructures to agreed levels of service under long-term contracts. In May 2007 Phoenix acquired ICM for £130m in cash and shares. ICM had been a portfolio holding since 2002.

Country	United Kingdom	
% of total assets		1.5
% of issued share capital held		9.2
	31/12/14	31/12/13
Valuation (£m)	9.98	9.23
Shares (m)	7.62	6.93

NCC Group

As a trusted adviser, NCC Group provides business critical IT assurance and protection to over 15,000 organisations worldwide, The Group provides organisations worldwide with expert software escrow and verification, security testing, website performance, software testing and domain services. NCC has 18 locations across the UK, Europe, North America and Australia.

Country	United Kingdom	
% of total assets		1.5
% of issued share capital held		2.3
	31/12/14	31/12/13
Valuation (£m)	9.88	8.88
Shares (m)	4.80	4.80

Wilmington Group

Wilmington Group plc is one of the UK's leading providers of Information, Compliance and Education for professional business markets. The Group provides business intelligence, information, training, education, events and support services for a variety of markets including the accountancy, banking, charities, financial services, healthcare, insurance, legal, and pensions sectors.

Country	United Kingdom	
% of total assets		1.4
% of issued share capital held		5.1
	31/12/14	31/12/13
Valuation (£m)	9.52	10.53
Shares (m)	4.39	4.39

Opsec Security

OpSec Security is a market leader in fighting counterfeits for brands, transaction cards, government documents and currency. OpSec delivers a comprehensive suite of end-to-end solutions, including advanced physical security technologies, supply chain track and trace services, and online and e-commerce monitoring and analysis for more than 300 companies across industry sectors and 50 governments worldwide. OpSec operates manufacturing and software development facilities and laboratories in the USA, UK and Germany and has sales operations in the Americas, Europe, and Asia.

Country	United Kingdom	
% of total assets		1.4
% of issued share capital held		25.2
	31/12/14	31/12/13
Valuation (£m)	9.46	9.46
Shares (m)	30.51	23.65

Alternative Networks

Alternative is one of the UK's leading independent telecommunications service providers. Established in 1994, it has grown steadily and can provide a complete communications and technology portfolio, including cloud computing, virtualisation, managed hosting, fixed line voice, mobile, systems, IP networks and complex billing software solutions. Based across six sites in total, Alternative employs over 600 members of staff.

Country	United Kingdom	
% of total assets		1.4
% of issued share capital held		3.7
	31/12/14	31/12/13
Valuation (£m)	9.40	7.70
Shares (m)	1.81	1.83

TOP TWENTY EQUITY HOLDINGS *continued*

AT 31 DECEMBER 2014

Kofax

Kofax is a leading provider of data capture applications that enable enterprises to handle real-time, information-intensive communications from customers and provide an essential connection to their systems of record, which are typically large scale, rigid enterprise applications and repositories not easily adapted to more contemporary technology. Kofax software and solutions are utilised by 20,000 customers in financial services, insurance, government, healthcare, business process outsourcing and other markets. Kofax delivers these through its own sales and service organisation, and a global network of more than 800 authorised partners in more than 70 countries throughout the Americas, EMEA and Asia Pacific.

Country		United Kingdom
% of total assets		1.4
% of issued share capital held		2.3
	31/12/14	31/12/13
Valuation (£m)	9.39	8.56
Shares (m)	2.10	2.10

Telecom Plus

Telecom Plus, which owns and operates the Utility Warehouse brand, is the UK's only fully integrated provider of a wide range of competitively priced utility services, spanning both the communications and energy markets. Telecom Plus provides over 550,000 homes and small businesses throughout the UK with Home Phone, Broadband, Mobile, Gas and Electricity all on a unified bill. Telecom Plus was incorporated in 1996 and began operations in 1997 providing a unique range of low-cost telephony services to the residential and SOHO markets. They use the collective buying power of individual users to negotiate bulk buying deals with major suppliers, passing the benefit back to their customers. Telecom Plus does not advertise and has no shops. Instead, they rely on word of mouth recommendations from satisfied customers and from a network of Independent Distributors.

Country		United Kingdom
% of total assets		1.4
% of issued share capital held		0.9
	31/12/14	31/12/13
Valuation (£m)	9.37	17.70
Shares (m)	0.75	1.00

Silicon Motion

Silicon Motion is a global leader and pioneer in developing microcontroller ICs for NAND flash storage devices and specialty RF ICs for mobile devices. Silicon Motion is a fabless semiconductor company that designs, develops and markets high performance, low-power semiconductor solutions to OEMs and other customers in the mobile storage and mobile communications markets. For the mobile storage market, key products are microcontrollers used in solid state storage devices such as SSDs, eMMCs and other embedded flash applications, as well as removable storage products. For the mobile communications market, key products are handset transceivers and mobile TV IC solutions. Silicon Motion's products are widely used in smartphones, tablets, and industrial and commercial applications. The company was founded in 1995 in San Jose, California and is now headquartered in Taiwan, with design centers and sales offices in Taiwan, Korea, China, Hong Kong, Japan and the US.

Country		USA
% of total assets		1.4
% of issued share capital held		1.8
	31/12/14	31/12/13
Valuation (£m)	9.10	5.12
Shares (m)	0.60	0.60

Radware

Radware is a global leader of application delivery and application security solutions for enterprise and carrier virtual and cloud data centers. Application delivery solutions include Application Delivery Controllers which manage application delivery and application performance. Network security solutions include; firewall/VPN, Unified Threat Management (UTM), intrusion detection systems, intrusion prevention systems and network behavioral analysis systems. Radware's award-winning solutions portfolio delivers full resilience for more than 10,000 enterprise and carrier customers worldwide.

Country		USA
% of total assets		1.3
% of issued share capital held		1.4
	31/12/14	31/12/13
Valuation (£m)	8.75	6.73
Shares (m)	0.62	0.62

Eckoh

Eckoh is a leader in secure payment technology, specialising in assisting organisations that take payments securely when the payment card is not present, for example over the phone, web or mobile. As a PCI DSS Level One Compliant Service Provider, corporate customers trust Eckoh to protect their contact centre and customers from payment card fraud and breaches. In addition to these payments products Eckoh has a portfolio of customer service solutions that target organisations with contact centres. These services enable organisations to manage their customer communications more efficiently and securely. Eckoh's multi-channel products give customers the ability to make enquiries, get information or make transactions over the phone, web or mobile without needing to interact with a contact centre agent or advisor.

Country		United Kingdom
% of total assets		1.3
% of issued share capital held		8.6
	31/12/14	31/12/13
Valuation (£m)	8.62	6.32
Shares (m)	19.16	19.16

Advent Software

Advent Software has provided trusted solutions to the world's financial professionals since 1983. Advent's focus is on supplying investment management companies with integrated software products and services in portfolio administration, including workflows within the managers and external portfolio reporting. Each solution focuses on specific mission-critical functions of the front, middle and back offices and is designed to meet the needs of the particular client, as determined by size, assets under management and complexity of the investment environment. Advent has worked with more than 4,400 client firms in 60 countries and has established itself as a leading provider of mission-critical applications to meet the demands of investment management operations around the world. It has adopted a rental model.

Country		USA
% of total assets		1.3
% of issued share capital held		0.8
	31/12/14	31/12/13
Valuation (£m)	8.58	9.42
Shares (m)	0.44	0.45

CLASSIFICATION OF INVESTMENTS

Classification	UK %	EMEA %	North America %	Japan & Asia Pacific %	2014 Total %	2013 Total %
OIL & GAS	**1.3**	**–**	**0.3**	**–**	**1.6**	**1.0**
Oil Equipment, Services & Distribution	0.5	–	–	–	0.5	0.5
Alternative Energy	0.8	–	0.3	–	1.1	0.5
BASIC MATERIALS	**0.3**	**–**	**–**	**0.2**	**0.5**	**0.9**
Chemicals	0.3	–	–	0.2	0.5	0.9
INDUSTRIALS	**9.4**	**0.1**	**0.6**	**1.3**	**11.4**	**12.6**
Construction & Materials	–	–	0.1	–	0.1	–
Aerospace & Defence	0.5	–	–	–	0.5	0.4
Electronic & Electrical Equipment	2.5	0.1	0.3	0.9	3.8	4.7
Industrial Engineering	–	–	–	0.1	0.1	–
Support Services	6.4	–	0.2	0.3	6.9	7.5
CONSUMER GOODS	**0.6**	**–**	**0.1**	**0.1**	**0.8**	**0.4**
Household Goods & Home Construction	0.1	–	–	–	0.1	0.1
Leisure Goods	0.5	–	0.1	0.1	0.7	0.3
HEALTH CARE	**0.8**	**0.1**	**0.2**	**–**	**1.1**	**1.1**
Health Care Equipment & Services	0.8	0.1	0.2	–	1.1	1.1
CONSUMER SERVICES	**12.5**	**0.1**	**0.7**	**0.4**	**13.7**	**13.9**
General Retailers	–	–	–	0.3	0.3	–
Media	12.5	0.1	0.7	0.1	13.4	13.9
TELECOMMUNICATIONS	**4.0**	**–**	**0.1**	**–**	**4.1**	**3.9**
Fixed Line Telecommunications	3.9	–	0.1	–	4.0	3.8
Mobile Telecommunications	0.1	–	–	–	0.1	0.1
FINANCIALS	**1.0**	**–**	**–**	**–**	**1.0**	**1.5**
Financial Services	0.4	–	–	–	0.4	1.0
Equity Investment Instruments	0.6	–	–	–	0.6	0.5
TECHNOLOGY	**34.4**	**3.3**	**19.5**	**3.4**	**60.6**	**59.0**
Software & Computer Services	25.5	1.5	10.5	0.9	38.4	37.4
Technology Hardware & Equipment	8.9	1.8	9.0	2.5	22.2	21.6
TOTAL EQUITIES (including convertibles and warrants)	**64.3**	**3.6**	**21.5**	**5.4**	**94.8**	**94.3**
Total equities – 2013 (including convertibles and warrants)	65.3	3.5	20.6	4.9	–	94.3
BONDS	**–**	**0.6**	**–**	**–**	**0.6**	**2.9**
NET LIQUID (LIABILITIES) ASSETS	**4.6**	**–**	**–**	**–**	**4.6**	**2.8**
TOTAL ASSETS (before deduction of bank loans and derivative financial instruments)	**68.8**	**4.2**	**21.5**	**5.4**	**100.0**	**–**
Total assets - 2013	**68.1**	**6.4**	**20.6**	**4.9**	**–**	**100.0**
BANK LOANS	**(3.7)**	**–**	**–**	**–**	**(3.8)**	**(3.8)**
DERIVATIVE FINANCIAL INSTRUMENTS	**(2.0)**	**–**	**–**	**–**	**(2.1)**	**(2.1)**
SHAREHOLDER'S FUNDS	**62.3**	**6.4**	**20.6**	**4.9**	**94.3**	
Shareholders' Funds - 2013	64.3	5.2	18.6	6.0	–	94.1
Number of equity investments (including convertibles and warrants)	162	21	69	43	295	274

GEOGRAPHICAL SPREAD OF INVESTMENTS

31 December 2014 **31 December 2013**

DETAILED LIST OF INVESTMENTS

AT 31 DECEMBER 2014

Classification	Name	Value £'000	%
UNITED KINGDOM			
Oil Equipment, Services and Distribution	* KBC Advanced Technologies	3,285	0.5
Alternative Energy	* Atlantis Resources	677	
	* Ilika	713	
	Intelligent Energy	2,095	
	* ITM Power	1,800	
		5,285	0.8
Chemicals	* Applied Graphene Materials	518	
	* Haydale Graphene Industries	149	
	* Versarien	1,108	
		1,775	0.3
Aerospace and defence	* Cohort	3,138	0.5
Electronic and Electrical Equipment	E2V Technologies	2,535	
	* Flowgroup	418	
	* Gooch & Housego	1,810	
	HellermannTyton	5,268	
	* Microsaic Systems	2,307	
	Oxford Instruments	1,586	
	Volex	1,877	
	XP Power	1,132	
		16,933	2.5
Support Services	Acal	4,334	
	* Digital Barriers	3,418	
	Diploma	16,164	
	Harvey Nash	1,031	
	* Maintel Holdings	4,087	
	* Opsec Security	9,459	
	PayPoint	1,332	
	* Sagentia	1,180	
	* Spectra Systems	167	
	* Synectics	413	
	* Tangent Communications	948	
		42,533	6.4
Automobiles and Parts	Torotrak	202	0.0
Household Goods and Home Construction	* PhotonStar LED Group	342	0.1
Leisure Goods	* Focusrite	1,249	
	* Frontier Developments	2,222	
		3,471	0.5
Health Care Equipment and Services	* Constellation Healthcare	650	
	* Deltex Medical	502	
	* Electrical Geodesics	2,250	
	* Kromek	874	
	* Scientific Digital Imaging	280	
	* Sphere Medical	595	
		5,151	0.8
Media	* Avesco	2,668	
	Bloomsbury Publishing	2,436	
	* BrainJuicer	2,639	
	Centaur Media	984	
	Chime Communications	3,865	
	* Digital Globe Services	612	
	* Ebiquity	6,260	
	Euromoney Institutional Investor	10,470	
	Future	2,009	
	* Gfinity	721	
	* M&C Saatchi	13,330	
	* Marimedia	1,519	
	* Minds+ Machines	1,238	
	* Mission Marketing	2,312	
	* Next Fifteen Communications	8,187	
	* Parallel Media	53	
	* Phorm	589	
	* Porta Communications	251	
	* Progressive Digital Media	959	
	Quarto	2,537	
	* Reach 4 Entertainment Enterprise	201	
	* Ten Alps	461	
	* ULS Technology	1,900	
	Wilmington	9,519	
	* XLMedia	908	
	* YouGov	3,658	
		80,286	12.0

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2014

Classification	Name	Value £'000	%
UNITED KINGDOM (continued)			
Fixed Line Telecommunications	* Alternative Networks	9,403	
	* CityFibre Infrastructure	5,344	
	* Manx Telecom	2,154	
	Telecom Plus	9,369	
		26,270	3.9
Mobile Telecommunications	* Gamma Communications	400	
	* Mobile Tornado	260	
		660	0.1
Financial Services	* Imperial Innovations	2,724	0.4
Equity Investment Instruments	† Herald Ventures II	1,641	
	† HIML Holdings	2,163	
		3,804	0.6
Software and Computer Services	* Artilium	1,042	
	* Bango	7,107	
	* Brady	5,248	
	† Business Control Solutions	650	
	† Celoxica A Shares	264	
	* Cloudbuy	1,199	
	* Coms	249	
	* Corero Network Security	1,239	
	* Craneware	3,021	
	* Daily Internet	524	
	* Dillistone	1,679	
	* Dotdigital	3,514	
	* Eagle Eye Solutions Group	764	
	* Earthport	2,735	
	* Eckoh	8,624	
	* EG Solutions	637	
	* EMIS	1,001	
	* eServGlobal	1,979	
	* EU Supply	389	
	FDM Group	1,915	
	Fidessa	5,709	
	* First Derivatives	3,075	
	* Forbidden Technologies	275	
	* Fusionex International	1,475	
	* GB Group	10,368	
	* Globo	1,669	
	Gresham Computing	3,211	
	* Ideagen	570	
	* IDOX	11,036	
	* Imaginatik	125	
	* Incadea	509	
	* Indigovision	666	
	Innovation Group	1,502	
	* Intercede	3,137	
	* IS Solutions	401	
	* K3 Business Technology	3,080	
	* Kalibrate Technologies	482	
	Kofax	9,392	
	* Lombard Risk Management	1,469	
	Microgen	2,954	
	* MoPowered	190	
	* Nasstar	425	
	NCC	9,876	
	* NetDimensions Holdings	1,190	
	* OMG	2,572	
	* Parity	444	
	Phoenix	9,982	
	* Pinnacle Technology	248	
	* Premaitha Health	74	
	* Proxama	748	
	* SciSys	2,208	
	SDL	13,908	
	Servelec	1,825	
	* ServicePower Technologies	947	
	* SimiGon	1,010	
	* SQS Software Quality Systems	10,842	
	* Starcom	625	
	* Statpro	5,366	
	* Synety	1,258	
	* Zoo Digital	381	
		169,004	25.3

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2014

Classification	Name		Value £'000	%
UNITED KINGDOM (continued)				
Technology Hardware and Equipment	BATM Advanced Communications		3,163	
	CML Microsystems		2,700	
	* Concurrent Technologies		335	
	CSR		2,970	
	Filtronic		643	
	Imagination Technologies		20,744	
	† Intechnology		333	
	* IQE		4,988	
	* MTI Wireless Edge		232	
	* Nanoco		1,443	
	* Northamber		1,171	
	* Seeing Machines		743	
	* Telit Communications		12,004	
	* Toumaz		7,452	
	* Ubisense		596	
			59,517	8.9
	TOTAL UNITED KINGDOM EQUITIES		424,380	63.6
EUROPE, MIDDLE EAST AND AFRICA (EMEA)				
Electronic and Electrical Equipment	Asetek	Norway	244	
	IDEX	Norway	387	
			631	0.1
Leisure Goods	Archos	France	215	0.0
Health Care Equipment and Services	EOS Imaging	France	809	
	Mauna Kea Technologies	France	102	
			911	0.1
	HighCo	France	212	
	Roularta Media	Belgium	238	
			450	0.1
Software and Computer Services	Data Respons	Norway	1,061	
	Datalex	Ireland	978	
	DataTec	South Africa	1,900	
	Devoteam	France	499	
	Esker	France	436	
	Isra Vision	Germany	1,964	
	Opera Software	Norway	811	
	Ordina	Netherlands	1,434	
	Sword	France	648	
			9,731	1.5
Technology Hardware and Equipment	BE Semiconductor Industries	Netherlands	6,975	
	Nordic Semiconductor	Norway	4,814	
	SOITEC	France	97	
			11,886	1.8
	TOTAL EMEA EQUITIES		23,824	3.6
NORTH AMERICA				
Alternative Energy	Hydrogenics		1,780	0.3
Construction and Materials	Tecogen		705	0.1
Electronic and Electrical Equipment	Energy Focus		632	
	Fabrinet		1,592	
			2,224	0.3
Support Services	Planet Payment		1,409	0.2
Leisure Goods	Glu Mobile		748	0.1
Health Care Equipment and Services	Novadaq Technologies		1,627	0.2
Media	Bankrate		1,594	
	TechTarget		89	
	Yelp		2,808	
			4,491	0.7
Fixed Line Telecommunications	8x8		763	0.1
Software and Computer Services	Actuate		6,737	
	Advent Software		8,576	
	Amber Road		1,310	
	Attunity		1,302	
	AVG Technologies		3,418	
	Boingo Wireless		3,247	
	Borderfree		573	
	Bottomline Technologies		1,085	
	Brightcove		2,350	
	Callidus Software		2,720	
	Cimatron		81	

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2014

Classification	Name		Value £'000	%
NORTH AMERICA (continued)				
	Descartes Systems		5,228	
	Epiq Systems		3,284	
	FalconStor Software		252	
	Guidance Software		930	
	KEYW		666	
	Kinaxis	Canada	405	
	Mentor Graphics		3,515	
	Netscout Systems		3,514	
	Pegasystems		4,926	
	Proofpoint		3,260	
	Qualys		1,354	
	SPS Commerce		1,813	
	support.com		1,340	
	Tangoe		418	
	TOP Image Systems		1,090	
	VASCO Data Security International		3,618	
	Web.com		3,045	
			70,057	10.5
Technology Hardware and Equipment	Alliance Fiber Optic Products		1,568	
	ANADIGICS		648	
	Aviat Networks		202	
	Cavium		5,938	
	Ceragon Networks		36	
	Ceva		3,704	
	ChipMOS TECHNOLOGIES	Bermuda	1,570	
	Emulex		1,091	
	Inphi Corporation		1,423	
	Lantronix		679	
	Mellanox Technologies		4,889	
	MoSys		1,062	
	MRV Communications		745	
	Nimble Storage		1,590	
	Power Integrations		1,161	
	Radisys		157	
	Radware		8,752	
	Sandvine	Canada	1,800	
	Silicom		1,116	
	Silicon Image		248	
	Silicon Motion Technology ADR		9,097	
	Spansion		3,757	
	Tessera Technologies		3,794	
	ViaSat		4,041	
	Violin Memory		613	
	Vitesse Semiconductor		242	
			59,923	9.0
	TOTAL NORTH AMERICAN EQUITIES		143,727	21.5
ASIA PACIFIC				
Chemicals	OCI Materials	South Korea	400	
	Soulbrain	South Korea	1,124	
			1,524	0.2
Electronic and Electrical Equipment	CyberPower Systems	Taiwan	711	
	Daeduck Electronics	South Korea	1,357	
	KH Vatec	South Korea	538	
	Partron	South Korea	668	
	Simm Tech	South Korea	604	
	Tripod Technology	Taiwan	828	
	Uju Electronics	South Korea	925	
	Unimicron Technology	Taiwan	489	
			6,120	0.9
Industrial Engineering	Tera Semicon	South Korea	450	0.1
Support Services	51job	China	1,839	
	Zhaopin ADR	China	338	
			2,177	0.3
Leisure Goods	BAIOO Family Interactive	Hong Kong	412	0.1
General Retailers	China Distance Education (ADR)	China	1,157	
	PChome Online	Taiwan	917	
			2,074	0.3
Media	Hong Kong Economic Times	Hong Kong	388	0.1

DETAILED LIST OF INVESTMENTS *continued*

AT 31 DECEMBER 2014

Classification	Name			Value £'000	%
ASIA PACIFIC (continued)					
Software and Computer Services	Chinacache International Holdings	China		290	
	Daum Communications	South Korea		1,009	
	Kingdee International Software	China		1,311	
	Melbourne IT	Australia		304	
	NQ Mobile	China		103	
	Pacific Online	China		1,504	
	Reckon	Australia		1,039	
	Systex	Taiwan		617	
				6,177	0.9
Technology Hardware and Equipment	Advantech	Taiwan		1,424	
	Ardentec	Taiwan		725	
	Chicony Electronics	Taiwan		706	
	Ememory Technology	Taiwan		929	
	Eugene Technology	South Korea		270	
	Global Testing	Taiwan		421	
	Hanmi Semiconductor	South Korea		1,399	
	Innox	South Korea		2,390	
	King Yuan Electronics	Taiwan		747	
	Kinsus Interconnect Technology	Taiwan		1,113	
	MIN AIK Technology	Taiwan		668	
	NEPES	South Korea		250	
	Parade Technologies	Taiwan		896	
	PAX Global Technology	Hong Kong		1,646	
	Protec	South Korea		223	
	PSK	South Korea		1,710	
	Sercomm	Taiwan		649	
	Silicon Works	South Korea		537	
				16,703	2.5
	TOTAL ASIA PACIFIC EQUITIES			36,025	5.4
CONVERTIBLE LOAN STOCKS HAVING AN ELEMENT OF EQUITY					
	+ ServicePower 8% Convertible Loan Stock 2016			320	
	+ Ten Alps Bank Loan Note 31 December 2016			1,357	
	+ Ten Alps Loan Note 31 March 2016			1,050	
	+ Ten Alps Unsecured Loan Note 31 March 2016			721	
	+ Ten Alps Loan Note 30 June 2015			75	
	+ Zoo Digital 7.5% Unsecured Convertible Loan Stock 2017			1,092	
	TOTAL CONVERTIBLE LOAN STOCKS HAVING AN ELEMENT OF EQUITY			4,615	0.7
TOTAL EQUITY INVESTMENTS				632,571	94.8
FIXED INTEREST	Norway 5% 15 May 2015		4,337		
	TOTAL FIXED INTEREST			4,337	0.6
TOTAL INVESTMENTS				636,908	95.4
NET LIQUID ASSETS				30,542	4.6
TOTAL ASSETS AT MARKET VALUE				667,450	100.0

(Before deduction of bank loans and derivative instruments)

* denotes AIM Stock
+ denotes unlisted security

TEN YEAR RECORD

Capital

At 31 December	Total assets £'000	Bank loans £'000	Shareholders' funds £'000	Net asset value per share* p	Diluted net asset value per share* p	Share p	(Discount)/ premium† %
2004	356,874	(24,663)	332,211	379.43	379.43	322.75	(14.9)
2005	358,293	-	358,293	409.22	409.22	379.75	(7.2)
2006	401,228	(20,000)	381,228	435.41	435.41	383.50	(11.9)
2007	343,497	-	343,497	394.96	394.96	312.00	(21.0)
2008	275,789	(65,079)‡	210,710	252.63	252.63	184.00	(27.2)
2009	397,194	(56,298)‡	340,896	420.58	420.58	337.75	(19.7)
2010	533,499	(58,937)‡	474,562	593.85	593.85	483.00	(18.7)
2011	519,656	(70,357)‡	449,299	563.75	563.75	455.00	(19.3)
2012	572,243	(70,297)‡	501,946	632.78	632.78	513.00	(18.9)
2013	662,538	(38,935)‡	623,603	802.79	802.79	685.00	(14.7)
2014	**667,450**	**(38,534)‡**	**628,917**	**813.19**	**813.19**	**659.00**	**(19.0)**

* The diluted net asset value per ordinary share figures have been calculated in accordance with FRS22.
† (Discount)/premium is the difference between Herald's quoted share price and its underlying diluted net asset value.
‡ Includes derivative financial instruments.

Revenue / Gearing Ratios

Year to 31 December	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share net¶ p	Dividend per ordinary share net p	Ongoing charges§ %	Actual gearing^	Potential gearing**
2004	4,776	301	0.34	0.30	1.20	97	107
2005	5,368	556	0.64	0.60	1.16	97	100
2006	6,492	1,922	2.19	1.20	1.13	102	105
2007	5,167	(1,370)	(1.57)	0.50	1.25	93	100
2008	7,629	4,742	5.59	1.55††	1.13	101	131
2009	6,077	324	0.39	0.30	1.12	105	117
2010	7,277	42	0.05	-	1.05	101	112
2011	9,171	947	1.19	1.00	1.10	105	116
2012	9,164	750	0.94	1.00	1.08	104	114
2013	9,004	(307)	(0.39)	-	1.04	100	106
2014	**8,245**	**(1,464)**	**(1.89)**	-	**1.07**	**101**	**106**

¶ 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 46).
§ From 2012, calculated by dividing total operating costs by average net asset value (with debt at fair value) in accordance with AIC guidelines. Prior years have not been recalculated as the change in methodology is not considered to result in a materially different figure.
^ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (excluding convertibles and corporate bonds) divided by shareholders' funds.
** Total assets (including all debt used for investment purposes) divided by shareholders' funds.
†† The 2008 dividend excludes the special dividend of 3.45p.

Cumulative Performance (taking 2004 as 100)

At 31 December	Diluted net asset value per share	Share price p	Comparative index‡‡	Numis Smaller Cos plus AIM Index	Russell 2000 Technology Index§§	Earnings per ordinary share	Dividend per ordinary share net	Retail price index
2004	100	100	100	100	100	100	100	100
2005	108	118	118	122	109	188	200	102
2006	115	119	133	146	108	644	400	107
2007	104	97	128	135	111	(462)	167	111
2008	67	57	76	69	89	1,644	517	112
2009	111	105	116	108	127	115	100	115
2010	157	150	155	139	179	15	-	120
2011	149	141	136	118	164	349	333	126
2012	167	159	155	141	171	278	333	130
2013	212	212	203	180	237	(115)	-	133
2014	**215**	**204**	**203**	**167**	**271**	**(556)**	-	**136**
Compound Annual Returns								
5 year	14.1%	14.3%	11.8%	9.1%	16.4%	-	-	3.4%
10 year	7.9%	7.4%	7.3%	5.3%	10.5%	-	-	3.1%

Past performance is not a guide to future performance.
‡‡ From 1 January 2006 the comparative index was changed to 2/3 Numis Smaller Companies Index (previously Hoare Govett Smaller Companies Index) plus AIM (ex investment companies) and 1/3 Russell 2000 (small cap) Technology Index (in sterling terms).
§§ The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents. The rebased index is used from 31 December 2008 onwards.

STRATEGIC REPORT

Business model and status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

The Company carries on business as an investment trust. It was approved by HM Revenue & Customs as an investment trust under Section 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2013, subject to matters that may arise from any subsequent enquiry by HM Revenue & Customs into the Company's tax return. In the opinion of the directors the Company has subsequently conducted its affairs so as to enable it to continue to seek such approval. In accordance with recent changes to Section 1158, the Company has obtained approval as an investment trust from HM Revenue & Customs for accounting periods commencing on or after 1 January 2014.

Objective

The Company's objective is described at page 1 (Policy and Objective).

Investment policy – strategy

While the policy is global investment in the above target areas, the approach is to construct a diversified portfolio through the identification of individual companies which offer long term growth potential, typically over a five year horizon or more. The portfolio is actively managed and does not seek to track any comparative index. With a remit to invest in smaller companies with market capitalisation generally below $2bn, there tends to be a correlation with the performance of smaller companies, as well as those of the technology sector. A degree of volatility relative to the overall market should be expected.

The risk associated with the illiquidity of smaller companies is reduced by generally restricting the stake in any one company to less than 10% of the shares in issue. A number of investments are in early stage companies, which have a higher stock specific risk but the potential for above average growth. Stock specific risk is reduced by having a diversified portfolio of over 250 holdings. In addition, to contain the risk of any one holding, the Manager generally takes profits when a holding reaches more than 5% of the portfolio. The Manager actively manages the exposure within the constraint that illiquid positions cannot be traded for short term movements.

The Company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

From time to time, fixed interest holdings, non equity or unlisted investments may be held on an opportunistic basis.

The Company recognises the long term advantages of gearing and has a maximum gearing limit of 50% of net assets. Borrowings are invested primarily in equity markets but the Manager is entitled to invest in other securities in the companies in the target areas when it is considered that the investment grounds merit the Company taking a geared position. The Board's intention is to gear the portfolio when appropriate. Gearing levels are monitored closely by the Manager and reviewed by directors at each board meeting.

The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risk).

A detailed analysis of the Company's investment portfolio is set out on pages 16 to 20 and in the Investment Manager's Report.

Performance and key performance indicators ("KPIs")

At each board meeting, the directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The KPIs used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share compared to the comparative index;
- the movement in the share price;
- the discount; and
- the ongoing charges.

A historical record of these measures is shown on pages 2, 3 and 21.

Share capital

At 31 December 2014 the Company's capital structure consisted of 77,339,546 ordinary shares of 25p each (2013 – 77,679,546 ordinary shares). During the year 340,000 (2013 – 1,643,737) shares were bought back and cancelled. There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares. On a winding up, after meeting the liabilities of the Company, the surplus assets would be paid to ordinary shareholders in proportion to their shareholdings.

Borrowings (see note 11 of the financial statements)

The Company's £50mn RBS loan facility expired on 31 December 2014. The £25mn drawn down at that time was repaid. The Company entered into a new Facility Agreement with RBS with effect from 31 December 2014. Under the new agreement, the Company has a sterling term loan facility of £25mn, all of which was drawn down on 31 December 2014, and a multi-currency revolving loan facility up to £25m, under which no drawdowns have been made to date. These facilities mature on 31 December 2017.

Review of the year and future trends

A review of the year and the investment outlook is contained in the Chairman's Statement and the Investment Manager's Report on pages 5 to 11.

Principal risks and uncertainties

The Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 20 to the accounts on pages 50 to 57.

Other risks faced by the Company include the following:

Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of Sections 1158 and 1159 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. The Manager, Depositary and Administrator provide regular reports to the Audit Committee on their monitoring programmes. The Manager monitors investment positions and the Manager and Company Secretary monitor the level of forecast income and expenditure to ensure the provisions of Sections 1158 and 1159 are not breached. See page 32 for further disclosures relevant to this risk.

Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that special circumstances of investment trusts are recognised.

Operational/financial risk – failure of the Administrator's accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The Manager, Administrator and Company Secretary each have comprehensive business continuity plans which facilitate continued operation of the business in the event of a service disruption or major disruption. The Audit Committee receives the Administrator's Report on Internal Controls and the reports by other key third party providers are reviewed by the Manager and Company Secretary on behalf of the Audit Committee.

Discount volatility – the discount at which the Company's shares trade can widen. The board monitors the level of discount and the Company has authority to buy back its own shares.

Gearing risk – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

All borrowings require the prior approval of the board and gearing levels are discussed by the board and Manager at every meeting. The majority of the Company's investments are in quoted securities.

Employees, social and community issues, gender

The Company has no employees. Its board is made up of four directors, all male.

As an investment trust, the Company has no direct social or community responsibilities. However, the Company believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment can be found under the section on stewardship later in this report.

Investment management, strategy implementation and administration

The management of the Company and the implementation of its investment strategy is contracted to Herald Investment Management Limited ('HIML'). HIML is authorised and regulated by the Financial Conduct Authority both for investment management and as an Alternative Investment Fund Manager (see regulatory compliance in the Directors' Report).

The management contract is subject to 12 months' notice by either party. The senior director of HIML with prime responsibility for the management of the Company's portfolio is Katie Potts, who is also a substantial shareholder of HIML. HIML is remunerated at a monthly rate of 0.08333% of the Company's net asset value calculated using middle market prices. Compensation fees would only be payable in respect of this 12 month period if termination were to occur sooner. Careful consideration has been given by the board as to the basis on which the management fee is charged. The board considers that maintaining an appropriate level of ongoing charges for a specialist trust is in the best interest of all shareholders. The board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance. At 31 December 2014, Katie Potts held 328,629 of the Company's shares.

At 31 December 2014, the Company was the beneficial owner of 15.3% of the ordinary share capital of HIML Holdings Limited, the parent company of HIML.

Administration of the Company and its investments has been delegated by HIML to The Bank of New York Mellon ("BNYM") and company secretarial duties have been delegated to Law Debenture Corporate Services Limited.

The board considers the investment management and secretarial arrangements for the Company on a continuing basis and a formal review is conducted annually. The board considers, amongst others, the following topics in its review: investment performance in relation to the investment policy and strategy; the continuity of personnel managing the assets and reporting to the board; the level of service provided in terms of the accuracy and timeliness of reports to the board and the frequency and quality of both verbal and written communications with shareholders. Following the most recent review the board is of the opinion that the continued appointment of HIML as investment manager, on the terms agreed, is in the interests of shareholders due to the experience of the Manager and the quality of information provided to the board.

Stewardship – responsibilities as an institutional shareholder

The Company has given discretionary voting powers to the investment manager, HIML. The Manager votes against resolutions it considers may damage shareholders' rights or economic interests. The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and has asked the Manager to take these issues into account as long as the investment objectives are not compromised. The Manager does not exclude companies from its investment universe purely on the grounds of ESG issues but adopts a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Manager to consider how ESG factors could impact long term investment returns. The Manager's Statement of Compliance with the UK Stewardship Code can be found on the Manager's website at www.heralduk.com. The Manager's policy has been reviewed and endorsed by the board.

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the directors and final dividends are subject to shareholder approval. The directors do not recommend a dividend for the period under review.

Julian Cazalet

By order of the Board
Julian Cazalet
Chairman
26 February 2015

CORPORATE GOVERNANCE REPORT

Compliance

The board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the September 2012 UK Corporate Governance Code (the "Code"), which can be found at www.frc.org.uk, were applied throughout the financial year. An updated version of the Code was published in September 2014 and will apply for the period beginning 1 January 2015. The board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code, except where indicated below.

The Association of Investment Companies has published its own Code of Corporate Governance which provides a framework of best practice for investment companies which can be found at www.theaic.co.uk. The board is of the opinion that the Company has complied with the recommendations of the AIC Code.

The Board

The board has overall responsibility for the Company's affairs. It has a number of matters reserved for its approval including strategy, approval of the financial statements, investment policy, borrowings, gearing, treasury matters, dividend and corporate governance policy. The board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the board to enable it to function effectively and to allow directors to discharge their responsibilities.

The Chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda. He reviews channels for the provision of information with the company secretary at least once a year. The executive responsibilities for investment management and administration have been delegated to HIML and The Bank of New York Mellon respectively, and in the context of a board comprising entirely non-executive directors, there is no chief executive officer. Mr DCP McDougall is the senior independent director.

The directors believe that the board has a balance of skills and experience which enable it to provide effective leadership and proper governance of the Company. Information about the directors, including their relevant experience, can be found on page 4.

Following the retirement of Mr T Curtis at the 2014 AGM, the board comprises four directors, all of whom are non-executive. All directors will retire at the AGM and, other than Stewart Newton, who has decided to retire from the board, offer themselves for re-election. Further board appointments are under consideration.

The board has reviewed the performance of all directors. In each case, their performance continues to be effective and they remain committed to the Company. Their contribution to the board is valued highly and for the relevant directors, the board recommends their re-election to shareholders.

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

Terms of appointment

The terms and conditions of directors' appointments are set out in formal letters of appointment which are available for inspection on request.

Under the provisions of the Company's Articles of Association, a director appointed during the year is required to retire and seek election by shareholders at the next AGM. All directors retire annually and if appropriate, offer themselves for re-election.

Independence of Directors

All the directors are considered by the board to be independent of the Manager and free of any business or other relationship which could interfere with the exercise of their independent judgement.

Mr DCP McDougall has served on the board for more than nine years. The directors recognise the importance of succession planning for company boards and review the board composition annually. However, the board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can be a benefit to the board. The board subscribes to the view expressed in the AIC Code that long-serving directors should not be prevented from being considered as independent.

Following a formal performance evaluation, the board has concluded that Mr McDougall continues to be independent in character and judgement and his skills and experience continue to be a benefit to the board.

Meetings

There is an annual cycle of board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, revenue budgets, dividend policy and communication with shareholders. The board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the board and committee meetings held during the year. All the directors attended the Annual General Meeting.

Number of meetings	Board 4	Audit 2	Nomination 1
Julian Cazalet	4	2	1
Tom Black	4	2	1
Tim Curtis*	2	1	–
Douglas McDougall	4	2	1
Stewart Newton	3	1	1

*retired at the 2014 AGM.

Nomination Committee

The Nomination Committee consists of all the directors and the Chairman of the board is Chairman of the committee. The committee meets on an annual basis and at such other times as may be required. The committee has written terms of reference which include reviewing the board, identifying and nominating new candidates for appointment to the board, board appraisal, succession planning and training. The committee also considers whether directors should be recommended for re-election by shareholders. The committee is responsible for considering directors' potential conflicts of interest and for making recommendations to the board on whether or not the potential conflicts should be authorised. The terms of reference are available on request and on the Manager's website: www.heralduk.com.

Appointments are made on merit irrespective of race, colour, religion and gender. The committee therefore does not consider it appropriate to set diversity targets.

Performance evaluation

The Nomination Committee met to assess the performance of the Chairman, each director, the board as a whole and its committees, after inviting each director and the Chairman to consider and respond to a set of questions. The appraisal of the Chairman was led by Mr DCP McDougall. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the board, training and development requirements, the contribution of individual directors and the overall effectiveness of the board and its committees. Following this process it was concluded that the performance of each director, the Chairman, the board and its committees continues to be effective and each director and the Chairman remain committed to the Company.

Notwithstanding Code provisions, the board currently considers that the use of external consultants to facilitate this evaluation is unlikely to be a significant benefit to the process, though the option to do so is kept under review.

A review of the Chairman's and other directors' commitments was carried out and the Nomination Committee is satisfied that they are capable of devoting sufficient time to the Company. There was one change to the Chairman's other commitments during the year, in that he retired as a director of Charles Taylor plc. Following the year end, he was appointed as a non-executive director of The Lindsell Train Investment Trust plc.

Induction and training

Training for new directors is tailored to the particular circumstances of the individual appointee. Regular briefings are provided on changes in regulatory requirements that could affect the Company and the directors. Directors receive other relevant training as necessary.

Remuneration

As all the directors are non-executive there is no requirement for a separate remuneration committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 33 to 35.

Internal controls and risk management

The directors acknowledge their responsibility for the Company's risk management and internal controls systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The board confirms that there is a continuing process for identifying, evaluating and managing the significant risks faced by the Company, in accordance with the guidance 'Internal Control: Revised Guidance for Directors on the Combined Code.'

The directors confirm that they have reviewed the effectiveness of the Company's risk management and internal control systems and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review.

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 HIML, the company secretary and BNYM.

The audit committee and board monitors performance of the functions performed by HIML, the company secretary and BNYM through regular review. With effect from 21 July 2014, when HIML became the Company's AIFM under the Alternative Investment Fund Managers Directive, the audit committee and board also monitor the controls managed by the AIFM.

The AIFM has a risk policy covering the risks associated with its management of the portfolio and it has in place its own risk management procedures, which are periodically reviewed. Risk limits are set by the AIFM and approved by the audit committee taking into account several factors, including investment strategy and risk appetite. The investment policy limits are described in the strategic report and are monitored at each board meeting, taking account of appropriate sensitivity analysis.

HIML has a compliance function in accordance with FCA regulations. The compliance function provides the audit committee and board with a report on its monitoring procedures on a regular basis. Compliance monitoring by HIML includes risk based internal monitoring as well as external monitoring of services that have been delegated to third parties – principally fund accounting and company secretarial services. For fund accounting, monitoring includes reviewing the monthly net asset value produced by BNYM versus HIML's own system, reviewing BNYM's client accounting compliance reports and internal audit confirmations and reviewing KMPG's annual ISAE3402 report on BNYM.

Under AIFMD, the Company has appointed a depositary, BNY Mellon Trust & Depositary (UK) Limited, whose responsibilities include cash monitoring and safe keeping of the Company's assets. The depositary has delegated custody services to The Bank of New York Mellon SA/NV, London Branch and is responsible for monitoring the sub-custodian in detail, the results of that monitoring being reported to HIML (and the audit committee) through periodic depositary reports. The scope of the fund accounting services includes reconciliations to custody records. Provision of custody services by BNYM is covered by a separate SOC1 report, a copy of which is provided to audit committee members.

Finally, a detailed risk map is prepared by the company secretary for the audit committee, identifying the significant risks faced by the Company and the key controls employed to manage those risks.

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 are identified during the year, these procedures also provide a mechanism to assess whether further action is required to manage the changes identified. The board confirms that these procedures have been in place throughout the year under review and that they continue to be in place up to the date of approval of this report.

Internal audit

The Audit Committee carries out an annual review of the need for an internal audit function. The Committee continues to believe that the compliance and internal control systems and the internal audit function in place within the Manager and the Administrator provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements are set out on pages 36 to 38.

Audit Committee

A separate Audit Committee report appears at page 29.

Relations with shareholders

The board places great importance on communication with shareholders. The Company's Manager meets regularly with larger shareholders and reports to the board. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with the Chairman or any other director may do so by writing to him at the registered office of the Company which is shown on page 4.

The Company's Annual General Meeting ("AGM") provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published on the Manager's website, www.heralduk.com, subsequent to the meeting. The notice period for the AGM is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company from the Manager's website.

AGM

At the AGM of the Company to be held on 21 April 2015 the following resolution will be proposed as special business.

Authority to purchase the Company's ordinary shares

At the Company's AGM held on 22 April 2014 the Company was authorised to purchase up to 11,644,163 of the Company's ordinary shares (14.99% of its ordinary share capital in issue at that time). During the year to 31 December 2014 the Company bought back 340,000 ordinary shares (nominal value £85,000 which comprised 0.44% of the issued share capital at 1 January 2014) on the London Stock Exchange for cancellation. The board continues to believe 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 again recommending in Resolution 8 at the 2015 AGM that this authority to purchase the Company's own ordinary shares should be renewed and should now expire at the Company's AGM to be held in 2016. 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 must not exceed the higher of (a) 5% above the average closing price (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the day of purchase and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. 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.

Recommendation

The directors unanimously recommend all holders to vote in favour of all the resolutions to be proposed at the AGM.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Company has complied throughout 2014 with all of the applicable requirements of the UK Corporate Governance Code save that the Chairman is a member of the Audit Committee and the board has not commissioned an external board review.

Julian Cazalet

By order of the Board
Julian Cazalet
Chairman
26 February 2015

AUDIT COMMITTEE REPORT

Audit Committee

An Audit Committee has been established consisting of all the independent non-executive directors, chaired by Mr DCP McDougall. Its authority and duties are defined within its written terms of reference which are available on request from the Company and on the Manager's website: www.heralduk.com.

Role and duties

Role and duties

The Committee's responsibilities, which were discharged during the year, include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and any formal announcements relating to the Company's financial performance;
- reviewing the adequacy and effectiveness of internal control and risk management systems;
- making recommendations to the board in relation to the appointment of the external auditor and approving the remuneration and terms of their engagement;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services;
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditor;
- reviewing the arrangements in place within HIML whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- reviewing the terms of the Investment Management Agreement; and
- considering annually whether there is a need for the Company to have its own internal audit function.

Risk management, internal control and internal audit

The extensive array of internal controls adopted by the Company are set out in the Corporate Governance Report. The board as a whole is responsible for the effectiveness of internal control mechanisms but it is informed by more specific work carried out by the Audit Committee.

External auditors – assessing effectiveness

One of the most important functions of the Committee is to monitor the independence and objectivity of the auditors, their performance and effectiveness. The Committee achieves this by meeting at least annually with the audit partner to discuss that year's audit. Part of that process requires the auditor to give the Committee an assessment of how the audit team identifies and manages the threats to its independence. The Committee receives confirmation from the auditor that it has complied with the relevant UK professional and regulatory requirements on independence. The Committee does not believe that there has been any impairment to the auditor's independence.

The Committee examines in detail the scope of the audit, ensuring that the auditor's objectives have met the Committee's expectations, along with key audit and accounting matters considered that year. The principal findings of the audit are discussed and challenged, particularly in areas where management judgement has been required. The Committee will give the auditor an opportunity to comment privately on the quality and standard of the Manager's and Administrator's performance generally and during the audit. Similarly, the Committee will seek the views of the Manager and Administrator on the effectiveness and performance of the audit team.

Non-audit services

There is not often a need for non-audit services to be provided by the auditor. The Committee's policy is that non-audit work should be limited to those matters where the external auditor is most appropriately placed to carry out the work, unless there is a conflict of interest.

Audit tendering

Ernst & Young LLP have been the Company's auditor since 1994. Having considered the experience and tenure of the audit partner and staff and level of service provided, the Committee remains satisfied with the auditor's effectiveness and accordingly has recommended that they be reappointed at the forthcoming AGM. The audit partner responsible for the audit must be rotated at least every five years and the current audit partner assumed the role in 2012. There are no contractual obligations restricting the Company's choice of external auditor. The Committee has no current plans to put the audit to tender, but is mindful of the Code provision that FTSE 350 companies should aim to tender their audit contract at least every ten years and EU Audit Regulations that will require rotation of the audit firm by 2023.

Significant financial issues relating to the 2014 financial statements

The Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed. There were no significant issues.

One matter that arose during the course of the audit was as follows. The Manager makes an estimate of the value of the unlisted stocks in the investment portfolio which the Board reviews and agrees. It is a part of the auditor's function to test whether those valuations meet the relevant accounting standards. The Committee has received reports from the Manager, with which it is satisfied, describing the basis for assumptions used and has discussed and agreed these with the auditor.

Summary

Following a detailed review of the financial statements and discussions with the Investment Manager, Administrator, Company Secretary and auditor, the Committee has concluded that the financial statements themselves, and the annual report as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. That conclusion has been reported to and confirmed by the board.

Douglas McDougall
Chairman, Audit Committee
26 February 2015

DIRECTORS' REPORT

The directors present their directors' report for the year ended 31 December 2014. The corporate governance report at pages 25 to 28 forms a part of the directors' report.

Results and dividend

The net asset value (NAV) of the Company at 31 December 2014 was 813.2p per ordinary share (2013 – 802.80p). This represented an increase of 1.3% during the year, compared to a decrease in the comparative index of 0.2%. The discount widened from 14.7% to 19.0%.

The directors do not recommend a dividend (2013 – nil) for the year ended 31 December 2014.

Directors

The directors are listed on page 4 and held office throughout the year. The names of those directors who will be considered for re-election at the forthcoming AGM appear on page 25.

Going concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the directors have undertaken a rigorous review of the Company's ability to continue as a going concern. The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in Note 20 to the financial statements. The Company's assets, the majority of which are investments in quoted securities, exceed its liabilities significantly. All borrowings require the prior approval of the board. Gearing levels and compliance with loan convenants are reviewed by the board on a regular basis. The £50 million facility maturing 31 December 2014 was replaced on that date (see Note 11 to the financial statements). In accordance with the Company's Articles of Association, shareholders have the right to vote on the continuation of the Company every three years and a resolution to that effect was approved at the AGM held on 23 April 2013.

After making enquiries and notwithstanding the above, the financial statements have been prepared on the going concern basis. There are no material uncertainties that call into question the Company's ability to continue to be a going concern for at least 12 months from the date of approval of the financial statements.

Conflicts of interest

Each director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers these carefully, taking into account the circumstances surrounding them, and makes a recommendation to the board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a director which conflicted with the interests of the Company.

Bribery Act 2010

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Manager, Administrator and company secretary also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

Greenhouse gas emissions

As the Company's activities are all outsourced to third parties, the Company has no greenhouse gas emissions to report.

Director indemnification and insurance

The Company has entered into deeds of indemnity in favour of each of the directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the director is convicted or civil proceedings brought by the Company in which judgement is given against him. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The Company maintains Directors' and Officers' liability insurance.

Principal risks and uncertainties

These are set out at page 23 as part of the strategic report.

Major interests in the Company's shares

	Number of shares	% of issued share capital
Rathbone Brothers Plc (Indirect)	8,211,700	10.62
1607 Capital Partners (Indirect)	2,594,658	3.35

* Based on issued share capital at 31 December 2014 of 77,339,546 ordinary shares.

Regulatory Compliance

The Alternative Investment Fund Managers ("AIFM") Directive

The AIFM is required to provide portfolio management, risk management, administration, accounting and company secretarial services to the Company. The Company has appointed HIML as its AIFM, to undertake these functions on its behalf. As reported elsewhere, the Company has elected to delegate some of these functions. As required by article 36 of the AIFMD, the Company has appointed a depositary, being BNY Mellon Trust & Depositary (UK) Limited. A fee is payable for this service, borne by the Company, being 0.015% per annum of the total net assets of the portfolio (adjusted to include any leverage). The depositary is responsible for custody activities and has appointed The Bank of New York Mellon SA/NV, London Branch, as its delegate to perform these activities.

AIFMs are obliged to publish certain information for investors and prospective investors and that information may be found either in this annual report or on the Company's website. Any information on remuneration not already disclosed in the remuneration report will be provided to investors on request.

The AIFMD requires a new annual disclosure of 'leverage'. This is slightly different from gearing, leverage being any method of borrowing that increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its NAV and must be calculated on a 'gross' and a 'commitment' method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other. Note 21 to the accounts sets out the Company's disclosure.

Foreign Account Tax Compliance Act ("FATCA")

FATCA is US tax legislation that requires non-US financial institutions to register with the United States Internal Revenue Service and make periodic reports about US taxpayers that hold substantial positions in the Company. The Company has registered as a Reporting Foreign Financial Institution and obtained a Global Intermediary Identification Number (GIIN = KB13C5.99999.SL.826).

Disclosure of information to the auditor

The directors confirm that so far as each of them is aware there is no relevant audit information of which the Company's auditor is unaware and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP) and give a true and fair view of the assets, liabilities, financial position and net return of the Company.

The annual report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Independent auditors

The auditors, Ernst & Young LLP, are willing to continue in office and in accordance with sections 489 and 491(1) of the Companies Act 2006 resolutions concerning their reappointment and remuneration will be submitted to the AGM.

By order of the Board Julian Cazalet

Julian Cazalet
Chairman

26 February 2015

DIRECTORS' REMUNERATION REPORT

1 Chairman's annual statement

Dear Shareholder

I present below (at section 3) the Company's remuneration report for the year ended 31 December 2014.

Our remuneration policy (see section 2 below) was approved by shareholders at the 2014 AGM and will remain in place for three years. The Board must only operate in accordance with the policy, unless it seeks prior shareholder approval to amend the policy.

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 auditor's opinion is included in their report on pages 37 and 38.

Scope and responsibility

As the Company has no employees and no executive directors, the policy relates only to the non-executive directors.

2 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 and be fair and comparable to that of other investment trusts that are similar in size. This policy, as approved by the shareholders, was implemented immediately after the AGM on 22 April 2014 and will remain in force until the AGM in 2017. The board has taken account of any views expressed by shareholders in formulating this policy.

Basic fee arrangement	The directors currently receive fees for their services as follows: Chairman fee – £28,500 Audit Committee chair – £21,000 NED fee – £19,000 These fees were agreed in 2012 and fees are determined within an aggregate limit set out in the Company's Articles of Association which currently stands at £125,000 per annum. 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 and comparative information when the board considers the level of directors' fees. If the board concludes that it is appropriate to increase fees during the three year period that the policy is in force, such increase (or increases) will be limited to a maximum total increase of 20% of the amounts currently payable. Any new directors will be paid at the rates set out above (subject to any increase that may have been introduced in line with this policy). Under the terms of the directors' appointment letters, there is no notice period and no provision for compensation upon early termination of appointment.
Benefits	None
Pension arrangements	None
Bonus arrangements	None

Dates of Directors' appointment letters

Name	Date of appointment
Julian Cazalet	18 January 2008
Douglas McDougall	13 February 2002
Stewart Newton	6 January 2012
Tom Black	1 May 2013

3 Annual remuneration report

Directors' remuneration for the year 2014 (audited)

The directors who served in the year received the following emoluments in the form of fees and received no other benefits or payments of any kind. There was no increase in fees in 2014.

	Fees 2014 £	Fees 2013 £
Directors who served during the year:		
Julian Cazalet	28,500	28,500
Tom Black	19,000	12,560
Tim Curtis (retired 22 April 2014)	15,420	19,000
Douglas McDougall	21,000	21,000
Stewart Newton	19,000	19,000
	102,920	100,060

Directors' Interests (audited)

Directors' shareholdings (beneficial unless stated) at the year-end were as follows:

Interests as at 31 December	2014	2013
Julian Cazalet*	155,000	150,000
Tom Black	6,900	-
Tim Curtis	n/a	10,000
Douglas McDougall	242,000	242,000
Stewart Newton	25,000	25,000

* 55,000 held non-beneficially

Company Performance

The graph below compares, for the six financial years ended 31 December 2014, 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 MSCI World Index (in sterling terms). This index was chosen for comparison purposes as it is the most widely used global equity index.

Source: Thomson Datastream

*Total return (assuming all dividends are reinvested).

Relative spend on fees

The following table shows the total amount spent on payments to directors with a comparator to last year, along with total distributions to shareholders by way of dividend or (where applicable) share buy-back or other distributions.

	2014 £'000	2013 £'000
Total spend – directors' fees	103	100
Total distributed to shareholders – dividends	–	789
– share buybacks	2,213	9,103

Amounts distributed to shareholders by way of dividend are the totals of the final dividends declared in the prior year.

Voting on remuneration matters at the 2014 AGM

At the AGM on 22 April 2014:

a) the resolution to receive and approve the directors' remuneration report for the year ended 31 December 2014 received the following votes: for – 99.8%; against – 0.2%. Votes withheld were 0.03% of the total votes cast.

b) the resolution to approve the remuneration policy received the following votes: for – 99.7%; against – 0.3%. Votes withheld were 11.40% of the total votes cast.

Miscellaneous disclosures

The board took no external advice on remuneration matters during the year. No payments were made to former directors during the year, or to any director for loss of office.

The directors' annual remuneration report set out at section 3 above was approved by the board of directors on 26 February 2015 and signed on its behalf by

Julian Cazalet
Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report, the Strategic Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for the keeping of adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. 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.

The directors have delegated responsibility to the Manager for the maintenance and integrity of the Company's page of the Manager's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The work carried out by the auditor does not involve any consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Each of the directors, whose names and functions are listed within the Directors, Manager and Advisers section confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces and the Directors' Report contains those matters required to be disclosed by applicable law.

By order of the Board

Julian Cazalet

26 February 2015

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HERALD INVESTMENT TRUST PLC

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

We have audited the financial statements of Herald Investment Trust plc for the year ended 31 December 2014 which comprise Income Statement, the Balance Sheet, the Reconciliation of Movement in Shareholder's Funds, the Cash Flow Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

- The valuation of investments;
- The existence of investments; and
- The valuation of the swap.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, in evaluating the effect of misstatements on our audit and on the financial statements and in forming our audit opinion. We determined materiality for the Company to be £6.3 million (2013: £6.2 million), which is 1 per cent of total equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75 per cent of materiality, namely £4.7 million (2013: £4.7 million). Our objective in adopting this approach was to ensure that total detected and undetected audit differences in all accounts did not exceed our planning materiality level

We have agreed to report to the Audit Committee all audit differences in excess of £0.3 million (2013: £0.3 million), as well as differences below that threshold that, in our view warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our response to the risks identified above was as follows:

- We agreed the year end prices for Level 1 and 2 investments to an independent source;
- With the assistance of our valuation experts, we considered the appropriateness of the valuation techniques applied to Level 3 investments by reviewing the valuation methodology and agreed the inputs to these valuations to appropriate supporting evidence;
- We received an independent third party confirmation from the custodian to verify the holdings; and
- We re-performed the valuation of the swap with reference to market data.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, page 36, in relation to going concern; and
- part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Ernst & Young LLP

Amarjit Singh (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

26 February 2015

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Gains on investments	9	–	17,208	17,208	–	126,239	126,239
Currency gains/(losses)		–	1,189	1,189	–	(742)	(742)
(Losses)/gains on derivative instruments	12	–	(9,405)	(9,405)	–	6,362	6,362
Income	2	8,245	–	8,245	9,004	–	9,004
Investment management fee	3	(6,283)	–	(6,283)	(5,648)	–	(5,648)
Other administrative expenses	4	(436)	(1)	(437)	(368)	–	(368)
Net return before finance costs and taxation		1,526	8,991	10,517	2,988	131,859	134,847
Finance costs of borrowings	5	(2,783)	–	(2,783)	(3,108)	(3)	(3,111)
Net return on ordinary activities before taxation		(1,257)	8,991	7,734	(120)	131,856	131,736
Tax on ordinary activities	6	(207)	–	(207)	(187)	–	(187)
Net return on ordinary activities after taxation		(1,464)	8,991	7,527	(307)	131,856	131,549
Net return per ordinary share	8	(1.89)p	11.59p	9.70p	(0.39)p	168.50p	168.11p

There is no final dividend proposed (2013 – nil). More information on dividend distributions can be found in Note 7 on page 46.

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

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

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

The accompanying notes on pages 43 to 57 are an integral part of the financial statements.

BALANCE SHEET

AT 31 DECEMBER

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		636,908		644,066
Current assets					
Debtors	10	1,253		1,554	
Cash and short term deposits	17	30,850		18,008	
		32,103		19,562	
Creditors: amounts falling due within one year					
Creditors	11	(26,560)		(26,090)	
Derivative financial instruments	12	(13,534)		(13,935)	
		(40,094)		(40,025)	
Net current liabilities			(7,991)		(20,463)
TOTAL NET ASSETS			628,917		623,603
Capital and reserves					
Called up share capital	13		19,335		19,420
Share premium	14		73,738		73,738
Capital redemption reserve	14		2,617		2,532
Capital reserve	14		532,946		526,168
Revenue reserve	14		281		1,745
SHAREHOLDERS' FUNDS			628,917		623,603
NET ASSET VALUE PER ORDINARY SHARE (including current year revenue)	15		813.19p		802.79p
NET ASSET VALUE PER ORDINARY SHARE (excluding current year revenue)			815.08p		803.18p

The financial statements of Herald Investment Trust plc (Company Registration No. 02879728) were approved by the board of directors and authorised for issue on 26 February 2015 and signed on its behalf by

Julian Cazalet
Chairman

The accompanying notes on pages 43 to 57 are an integral part of the financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Share-holders' funds £'000
Shareholders' funds at 1 January 2014		19,420	73,738	2,532	526,168	1,745	623,603
Net return on ordinary activities after taxation		–	–	–	8,991	(1,464)	7,527
Shares bought back	13	(85)	–	85	(2,213)	–	(2,213)
Dividends paid during the year	7	–	–	–	–	–	–
Shareholders' funds at 31 December 2014		19,335	73,738	2,617	532,946	281	628,917

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Share-holders' funds £'000
Shareholders' funds at 1 January 2013		19,830	73,738	2,122	403,415	2,841	501,946
Net return on ordinary activities after taxation		–	–	–	131,856	(307)	131,549
Shares bought back	13	(410)	–	410	(9,103)	–	(9,103)
Dividends paid during the year	7	–	–	–	–	(789)	(789)
Shareholders' funds at 31 December 2013		19,420	73,738	2,532	526,168	1,745	623,603

The accompanying notes on pages 43 to 57 are an integral part of the financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Net cash inflow from operating activities	16		(6,554)		2,623
Servicing of finance					
Loan and derivative interest		(3,075)		(3,019)	
Net cash outflow from servicing of finance			(3,075)		(3,019)
Financial investment					
Purchase of investments		(85,031)		(89,152)	
Sale of investments		109,715		113,498	
Net cash inflow from financial investment			24,684		24,346
Equity dividend paid	7		–		(789)
Net cash inflow before financing			15,055		23,161
Financing					
Bank loans drawn down	11	25,000		50,000	
Bank loans repaid	11	(25,000)		(75,000)	
Shares repurchased	13	(2,213)		(9,103)	
Net cash outflow from financing			(2,213)		(34,103)
Increase/(decrease) in cash	17		12,842		(10,942)
Reconciliation of net cash flow to movement in net debt	17				
Increase/(decrease) in cash for period			12,842		(10,942)
Decrease in debt for period			–		25,000
Movement in net debt in period			12,842		14,058
Net debt at 1 January			(6,992)		(21,050)
Net cash/(debt) at 31 December			5,850		(6,992)

The accompanying notes on pages 43 to 57 are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The financial statements for the year to 31 December 2014 have been prepared on the basis of the accounting policies set out below, which are consistent with those in the Company's Annual Report and Financial Statements at 31 December 2013.

(a) Accounting convention

The financial statements are prepared on the assumption that approval as an investment trust will be retained.

The directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

The financial statements have been prepared in accordance with The Companies Act 2006, applicable UK accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued January 2009). The AIC's latest SORP, published in November 2014, applies to accounting periods beginning on or after 1 January 2015.

In order to better reflect the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

Financial assets and financial liabilities are recognised in the Company's balance sheet when it becomes a party to the contractual provisions of the instrument.

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis.

All investments are designated at fair value through profit or loss upon initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed security investments is bid value. Investments on the Alternative Investment Market are included at their bid value. The fair value of unlisted investments uses valuation techniques determined by the directors on the basis of latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines.

Gains and losses arising from changes in the fair value of investments are taken to capital reserve.

(c) Income

Dividend income is accounted for when the entitlement to the income is established (normally on the ex-dividend date). Franked income is stated net of tax credits. Unfranked investment income includes the taxes deducted at source. Interest from fixed interest securities is recognised on an effective yield basis. Underwriting commission and interest receivable on deposits are recognised on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue column of the Income Statement except where they relate directly to the acquisition or disposal of an investment (transaction costs) and are taken to the Income Statement as a capital item.

(e) Finance costs

Finance costs are accounted for on an accruals basis and are charged through the revenue column of the Income Statement.

(f) Financial instruments

The Company uses interest rate swaps to hedge the cash flow risk arising from interest rate fluctuations. The swap is marked to fair value. The fair value is estimated based on the swap provider's valuation and is compared to an external model and external prices. Gains or losses arising on the fair value of the interest rate swap during the year are taken to the income statement as a capital item, along with any gains or losses realised on closure (or part closure) of the instrument.

In accordance with FRS 26: 'Financial Instruments: Measurement', derivative instruments are valued at fair value and are included in current assets or current liabilities in the balance sheet.

(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.

1. Accounting policies (continued)

(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 reserve. Those of a capital nature are taken to capital reserve.

(i) Capital reserve

Gains and losses on disposal of investments, changes in investment holding gains/(losses), realised exchange differences of a capital nature and purchases of the Company's own shares for cancellation are dealt with in this reserve.

(j) Use of estimates

The preparation of financial statements requires the Company to make judgements, estimates and assumptions that affect amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates, possibly significantly. The judgements relate to the investments where there is no appropriate market price i.e. the unlisted investments and the interest rate swap.

2. Income

	2014 £'000	2013 £'000
Income from investments		
Franked dividends from listed investments	2,576	3,589
Franked dividends from unlisted investments (inc AIM)	3,095	2,425
Unfranked income from unlisted (inc AIM) UK convertible bonds	96	140
Overseas dividend from UK listed companies	472	133
Overseas dividend income	1,617	1,555
UK interest	–	618
Overseas interest	352	412
	8,208	8,872
Other income		
Deposit interest	1	132
Underwriting commission	36	–
Total income	8,245	9,004
Total income comprises:		
Dividends from equity securities designated at fair value through profit or loss	7,760	7,702
Interest from financial assets designated at fair value through profit or loss	448	1,170
Deposit interest	37	132
	8,245	9,004

3. Investment management fee

	2014 £'000	2013 £'000
Investment management fee	6,283	5,648

Herald Investment Management Limited is appointed investment manager 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 based on middle market prices. The management fee is levied on all assets except the holding in Herald Ventures II Limited Partnership managed by Herald Investment Management Limited.

4. Other administrative expenses

	2014 £'000	2013 £'000
Custodian's fees	52	55
Registrars' fees	36	35
Directors' fees	109	100
Auditor's fees – statutory audit	19	19
Auditor's fees – other	–	6
Depositary's fees	51	–
Miscellaneous expenses	169	153
	436	368

5. Finance costs of borrowings

	2014 £'000	2013 £'000
Bank loans repayable within one year	595	915
Interest on swap	2,188	2,193
	2,783	3,108

In addition to the above, there were £nil (2013: £3,000) expenses charged to capital.

6. Tax on ordinary activities

	2014 £'000	2013 £'000
Analysis of charge in year		
Overseas taxation	207	187

Factors affecting tax charge for year

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 21.49% (2013 – 23.25%). The differences are explained below:

	2014 £'000	2013 £'000
Net return on ordinary activities before taxation	7,734	131,736
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.49% (2013 – 23.25%)	1,662	30,629
Effects of:		
Capital returns not taxable	(1,932)	(30,653)
Dividends not subject to UK tax	(1,668)	(1,792)
Overseas withholding tax	207	187
Movement in excess management expenses	1,938	1,816
Current tax charge for the year	207	187

As an Investment Trust, the Company's capital gains are not taxable.

There is no UK corporation tax charge at 31 December 2014 or 31 December 2013 as the Company has unrelieved management expenses which are available to be carried forward. The tax charge for 31 December 2014 and 2013 comprises overseas withholding taxes written off.

At 31 December 2014, the Company had a potential deferred tax asset of £11,621,000 (2013 – £9,819,000) on taxable losses of £58 million (2013 – £49 million) which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 20% (2013 – 20%).

7. Dividends on ordinary shares

	2014	2013	2014 £'000	2013 £'000
Amounts recognised as distributions in the period:				
Previous year's final	nil	1.00p	nil	789

Set out below are the total dividends payable in respect of the financial year, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year ended 31 December 2014 is £nil (2013 – £nil).

	2014	2013	2014 £'000	2013 £'000
Amounts paid and proposed in respect of the period:				
Proposed final dividend per ordinary share	nil	nil	nil	nil

8. Net return per ordinary share

2014 Revenue	2014 Capital	2014 Total	2013 Revenue	2013 Capital	2013 Total
(1.89p)	11.59p	9.70p	(0.39p)	168.50p	168.11p

Revenue return per ordinary share is based on the net (expense)/revenue return on ordinary activities after taxation of (£1,464,000) (2013 – (£307,000)) and on 77,557,464 ordinary shares (2013 – 78,251,922) being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £8,991,000 (2013 – net capital gain of £131,856,000) and on 77,557,464 ordinary shares (2013 – 78,251,922) being the weighted average number of ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

9. Fixed assets – investments

	2014 £'000	2013 £'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed UK – equity investments – London Stock Exchange	169,240	175,977
– AIM	250,090	247,512
Listed Overseas – equity investments	203,576	191,905
– debt investments	4,337	19,281
Unquoted*	9,665	9,391
Total investments in financial assets at fair value through profit or loss	636,908	644,066

9. Fixed assets – investments (continued)

	Listed in UK £'000	Listed overseas £'000	AIM £'000	Unquoted * £'000	Total £'000
Cost of investments at 1 January 2014	94,758	156,161	164,216	19,297	434,432
Investment holding gains/(losses) at 1 January 2014	81,219	55,025	83,296	(9,906)	209,634
Fair value of investments at 1 January 2014	175,977	211,186	247,512	9,391	644,066
Movements in the year:					
Purchases at cost	16,027	29,774	38,956	950	85,707
Sales – proceeds	(17,990)	(54,430)	(32,777)	–	(105,197)
– gains on sales	8,438	14,377	22,250	–	45,065
Amortisation of fixed income book cost	–	(356)	–	–	(356)
Transferred from listed to unquoted during the year	–	(415)	–	415	–
Transferred from listed to AIM	–	(336)	336	–	–
Transferred from unquoted to listed during the year	322	–	–	(322)	–
Transferred to listed from AIM during the year	–	935	(935)	–	–
Return of capital	–	(438)	(2,602)	(1,480)	(4,520)
Changes in investment holding gains/(losses)	(13,534)	7,616	(22,650)	711	(27,857)
Fair value of investments at 31 December 2014	169,240	207,913	250,090	9,665	636,908
Cost of investments at 31 December 2014	101,555	145,272	189,444	18,860	455,131
Investment holding gains/(losses) at 31 December 2014	67,685	62,641	60,646	(9,195)	181,777
Fair value of investments at 31 December 2014	169,240	207,913	250,090	9,665	636,908

	2014 £'000	2013 £'000
Gains on investments designated at fair value through profit or loss on initial recognition		
Realised gains on sales	45,065	32,465
Changes in investment holding gains	(27,857)	93,774
	17,203	126,239

*The unquoted balance comprises Atex at nil, Business Control Solutions at £650,000, Celoxica Holdings at £264,000, Dwav at nil, Freshwater UK at nil, Greenplug at nil, HIML Holdings at £2,163,000, Herald Ventures II at £1,641,000, Hiwave Technology at nil, Ilinc Communications at nil, Intechnology at £333,000, Invu at nil, Servicepower Technologies Convertible loan stock at £320,000, Silanis International at nil, Social Go Warrants at nil, Ten Alps Loan Notes at £3,203,000 and Zoo Digital at £1,092,000.

The investments in the equity and fixed interest stocks of unlisted companies that the Company holds are not traded and as such the prices are more uncertain than those of more widely traded securities. The fair value of unlisted investments uses valuation techniques determined by the directors on the basis of latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines as described in note 1(b). The fair value of unlisted investments at 31 December 2014 was £9,665,000 (2013 – £9,389,000).

At 31 December 2014 the Company was the beneficial owner of 15.3% (2013 – 14.5%) of the ordinary share capital of HIML Holdings Limited. HIML Holdings Limited is incorporated in the United Kingdom and is the parent company of the Company's Manager.

	2014 £'000	2013 £'000
Transaction costs		
The following commission costs were incurred during the period:		
Purchases	236	252
Sales	229	353
	465	605

10. Debtors

	2014 £'000	2013 £'000
Due within one year:		
Income accrued and prepayments	1,201	1,514
Taxation recoverable	52	40
	1,253	1,554

None of the above debtors are financial assets designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value.

11. Creditors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Purchases for subsequent settlement	675	-
Bank loans	25,000	25,000
Swap interest	200	401
Other creditors and accruals	685	689
	26,560	26,090

None of the above creditors are financial liabilities designated at fair value through profit or loss. Included in other creditors and accruals is £530,000 (2013 – £523,000) in respect of the investment management fee.

The Company had a £50 million multi-currency variable rate loan facility with The Royal Bank of Scotland plc, which expired in December 2014 with full repayment of the £25 million that was drawndown. This was replaced on 31 December 2014 with a sterling loan facility of £25 million and a £25 million multi-currency revolving advance loan maturing 31 December 2017. The sterling loan was drawndown in full on 31 December 2014.

At 31 December 2014, there were outstanding drawings of £25 million (2013 – £25 million). Interest on the loan is payable in quarterly instalments in January, April, July and October. The estimated repayment value of the loan at 31 December 2014 was £25 million. The indicative costs of repaying the loan as at 31 December 2014 were not materially different in the context of the above figures.

The interest on the facilities has been fixed for the long term through a 30 year interest rate swap but may vary on periodic renewals of the debt facility to the extent that the mark up over LIBOR charged by a lending bank varies. The fair value of the interest rate swap contract at 31 December 2014 was an estimated liability of £13.5 million (2013 – £13.9 million) which was based on the swap provider's valuation. The swap was part closed out on 23 December 2014. The Company paid £10 million to reduce the notional from £50 million to £25 million.

The interest rate swap has been disclosed as due within one year as the Company can close out the swap contact at its discretion.

The loan has been disclosed as due within one year as the Company has the right to prepay the advance under the terms and conditions of the loan agreement. In connection with the revolving facility, the duration of the advance is 3 or 6 months and the decision to rollover the loan is made at quarterly board meetings based on circumstances prevailing at the time. The decision to continue with the swap arrangement is reviewed at the same time as the loan agreement.

The main covenants relating to the loan are:

Total borrowings shall not exceed 25% of the Company's Total Qualifying Assets adjusted by deducting:

(i) the amount by which the market value of any single investment of the Borrower exceeds 5% of Total Qualifying Assets;

(ii) the amount by which the aggregated value of the ten largest Qualifying Assets exceeds 35% of Total Qualifying Assets; and

(iii) the amount by which the aggregated value of AIM Assets exceeds 45% of Total Qualifying Assets.

12. Derivative financial instruments

	2014 Notional contract amount £'000	2014 Fair value assets £'000	2014 Fair value liabilities £'000	2014 Fair value balance £'000	2013 Notional contract amount £'000	2013 Fair value assets £'000	2013 Fair value liabilities £'000	2013 Fair value balance £'000
Total derivative assets/(liabilities)	25,000	10,256	(23,790)	(13,534)	50,000	28,505	(42,440)	(13,935)

The swap valuation gives an indication of fair value, but the price at which the swap can be unwound or realised may diverge materially from this valuation depending on market conditions and liquidity. The fair value of the swap at 31 December 2014 was a liability of £13,534,000 (2013 – £13,935,000), which represents a change in fair value of £401,000. When the swap was part closed out, the Company incurred a loss of £9,806,000 (2013: £nil), which is included within the capital column of the Income Statement.

13. Called up share capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
Allotted, called up and fully paid:				
Ordinary shares of 25p:	77,339,546	19,335	77,679,546	19,420

At the Annual General Meeting in April 2014, shareholders granted the Company authority to purchase shares in the market up to 11,644,163 ordinary shares (equivalent to 14.99% of its issued share capital at that date). During the year to 31 December 2014, a total of 340,000 (2013 – 1,643,737) ordinary shares with a nominal value of £85,000 (2013 – £410,934) were bought back at a total cost of £2,213,477 (2013 – £9,103,250) and were subsequently cancelled. At 31 December 2014 the Company had authority to buy back a further 11,304,163 ordinary shares. Under the provisions of the Company's Articles share buy-backs are funded from the capital reserve.

14. Capital and reserves

	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 1 January 2014	73,738	2,532	526,168	1,745
Shares purchased for cancellation	–	85	(2,213)	–
Gains on sales	–	–	45,065	–
Changes in investment holding gains	–	–	(27,857)	–
Movement in fair value of interest rate swap	–	–	(9,405)	–
Other exchange differences	–	–	1,189	–
Other administrative expenses	–	–	(1)	–
Revenue return on ordinary activities after taxation	–	–	–	(1,464)
Balance at 31 December 2014	73,738	2,617	532,946	281

The capital reserve includes investment holding gains of £181,777,000 (2013 – £209,634,000) as disclosed in note 9.

The revenue reserve represents the only reserve from which dividends can be funded.

15. 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 (which is the same figure under UK GAAP) were as follows:

	2014	2013	2014 £'000	2013 £'000
Ordinary shares	813.19p	802.79p	628,917	623,603

Net asset value per ordinary share is based on net assets as shown above and on 77,339,546 (2013 – 77,679,546) ordinary shares, being the number of ordinary shares in issue at each date.

16. Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2014 £'000	2013 £'000
Net return on ordinary activities before finance costs and taxation	10,517	134,847
Gains on investments	(7,803)	(132,601)
Realised losses on interest rate swap	(9,806)	-
Decrease/(increase) in accrued income	313	385
(Increase)/decrease in other debtors	(7)	(14)
Increase/(decrease) in creditors	88	(29)
Amortisation of fixed income book cost	356	230
Income tax (suffered)/repaid	(5)	(8)
Overseas tax suffered	(207)	(187)
Net cash inflow from operating activities	(6,554)	2,623

17. Analysis of changes in net debt

	At 1 January 2014 £'000	Cash flows £'000	At 31 December 2014 £'000
Cash at bank and in hand	18,008	12,842	30,850
Loans due within one year	(25,000)	-	(25,000)
	(6,992)	12,842	5,850

18. Contingent liabilities, guarantees and financial commitments

There were no contingent liabilities, guarantees or financial commitments at 31 December 2014. The Company's commitment to participate in Herald Ventures II Limited Partnership was fully drawn down by 31 December 2013.

19. Capital management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital and reserves as detailed in notes 13 and 14. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 22, and shares may be repurchased as explained on page 28.

20. Financial instruments

In accordance with the corporate objective of maximising capital appreciation the Company invests in securities on a worldwide basis. The Company makes use of gearing to achieve improved performance in rising markets and has an interest rate swap, the purpose of which is to hedge the variability in cash flows arising from interest rate fluctuations on bank loans. The Company's other financial instruments consist of cash, short term debtors and creditors.

The main risks arising from the Company's financial instruments are:

A. Market Risk

(i) Other price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement;

(ii) Interest rate risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; and

(iii) Foreign currency risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

B. Credit Risk

Being the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

20. Financial instruments (continued)

C. Liquidity Risk

Being the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

These risks and the policies for managing them have been applied throughout the year and are summarised below. Further detail is contained in the Strategic Report on page 23.

A. Market Risk

(i) Other 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 bid prices, whereas material unlisted investments are valued by the directors on the basis of the latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines (Accounting Policy (b)). These valuations also represent the fair value of the investments, see note 9 on pages 46 and 47.

A full list of the Company's investments is given on pages 16 to 20. 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 shown on pages 12 to 15.

Other Price Risk Sensitivity

26.6% of the Company's equity investments at 31 December 2014 (2013 – 26.5%) were listed on the main list of the London Stock Exchange and a further 39.3% (2013 – 38.2%) on AIM. The NASDAQ Stock Exchange accounts for 22.6% (2013 – 16.7%) and other stock exchanges 11.5% (2013 – 18.6%). A 10% increase in stock prices at 31 December 2014 would have increased total net assets and net return on ordinary activities after taxation by £63,200,000 (2013 – £62,500,000). A decrease of 10% would have had an equal but opposite effect. The portfolio does not target any exchange as a comparative index, and the performance of the portfolio has a low correlation to generally used indices.

The Company's shares have an underlying NAV per share. The NAV per share fluctuates on a daily basis. In addition, there is volatility in the discount/premium the share price has to NAV.

(ii) 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 Government Securities, the interest rate and maturity dates of which are detailed below. Interest is accrued on sterling cash balances at a rate linked to the UK base rate.

The Company has borrowings. The aim of the use of gearing is to enhance long term returns to shareholders by investing borrowed funds in equities and other assets. Gearing is actively managed. How and where borrowings are invested is reviewed by the board in consultation with the Manager at every board meeting. In light of the decisions made, appropriate adjustments to the gearing position are then made by the Manager.

At the year end the Company had borrowings of £25 million (2013 – £25 million). Under the terms of an interest rate swap, the interest payable on the bank loans has been fixed.

The interest rate risk profile of the financial assets and financial liabilities at 31 December was:

Financial Assets

	2014 Fair value £'000	2014 Weighted average interest rate/ interest rate	2014 Weighted average period until maturity/ maturity date	2013 Fair value £'000	2013 Weighted average interest rate/ interest rate	2013 Weighted average period until maturity/ maturity date
Fixed rate:						
UK bonds	–	–	–	–	–	–
Euro bonds	4,337	4.9%	0.3 years	19,281	4.2%	3 years
UK convertible bonds	4,615	8.7%	2.7 years	256	8.0%	3 years
Cash:						
Other overseas currencies	19,193			10,271		
Sterling	11,657	1.0%		7,737	1.0%	
	30,850			18,008		

20. Financial instruments (continued)

(ii) Interest Rate Risk (continued)

The cash deposits generally comprise call or short term money market deposits with original maturities of less than 3 months which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

Financial Liabilities

	2014 £'000	2014 Net interest rate paid	2014 Loan facility expired/ expires	2013 £'000	2013 Net interest rate paid	2013 Loan facility expired/ expires
Bank Loan	25,000	1.9%	Dec 2014	25,000	1.9%	Dec 2014
		1.9%			1.9%	
Interest rate swap	25,000	4.3%		50,000	4.4%	
Total		6.2%			6.3%	

At 31 December 2014, the Company had an unutilised committed revolving credit facility of £25 million (2013: £25m), with a cost associated cost rate of 0.53%.

The effective fixed rate of interest on the loans of 6.22% (2013 – 6.25%) reflects a weighted average variable interest rate paid of 1.88% (2013 – 1.87%), with a further weighted average of 4.34% paid on the swap (2013 – 4.38%). The Company's facilities are rolling on a quarterly basis with the facilities expiring in December 2017.

While the 30 year swap remains in place, the net interest payable will effectively be fixed for the duration of the term of the loan facilities.

	2014 Notional contract amount £'000	2014 Fair value assets £'000	2014 Fair value liabilities £'000	2014 Fair value balance £'000	2013 Notional contract amount £'000	2013 Fair value assets £'000	2013 Fair value liabilities £'000	2013 Fair value balance £'000
Total derivative assets/(liabilities)	25,000	10,256	(23,790)	(13,534)	50,000	28,505	(42,440)	(13,935)

Interest rate risk sensitivity

(a) Cash

An increase or decrease of 100 basis points in interest rates as at 31 December 2014 would have a direct effect on net assets. Based on the position at 31 December 2014, over a full year, an increase of 100 basis points would have increased the net return on ordinary activities after taxation by £310,000 (2013 – £180,000) and would have increased the net asset value per share by 0.49p (2013 – 0.23p). A decrease of 100 basis points would have an equal and opposite effect. The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole.

(b) Fixed rate bonds

An increase of 100 basis points in bond yields as at 31 December 2014 would have decreased total net assets and total return on ordinary activities by £16,000 (2013 – £576,000) and would have decreased the net asset value per share by 0.02p (2013 – 0.74p). A decrease in bond yields would have had an equal and opposite effect. The Convertible loan stocks having an element of equity are not included in this analysis as given the nature of the businesses and the risk profile of the balance sheets they are considered to have more equity like characteristics.

(c) Bank loans

The effect of an increase or decrease of 100 basis points in 3 month LIBOR interest rates as at 31 December 2014 on the interest cost of the bank loans and the net income return has been eliminated through a 30 year floating interest rate to fixed interest rate swap. The swap generates payments or charges that offset changes in the 3 month LIBOR interest rate, so that the interest payable on the bank loans is effectively converted to a fixed rate loan at 4.8975% (2013 – 4.8975%) plus margin cost. The initial term of the swap on commencement at 30 years did not match the term of the loans, therefore, hedge accounting is not used and changes in the fair value of the swap are captured in the net return on ordinary activities as set out in (d) below.

20. Financial instruments (continued)

Interest rate risk sensitivity (continued)

(d) Floating interest rate to fixed interest rate swap

A decrease of 100 basis points on 30 year interest rates as at 31 December 2014 would have a direct effect on the fair value of the swap and net assets. Based on the position as at 31 December 2014, over a full year, a decrease of 100 basis points would have decreased the gains on investments and net return on ordinary activities after taxation by £6,285,000 (2013 – £10,181,000) and would have decreased the net asset value per share by 8.13p (2013 – 13.11p). An increase of 100 basis points would have had an equal but opposite effect.

(iii) Foreign Currency Risk

The Company's reporting currency is sterling, but investments are made in overseas markets as well as the United Kingdom and the asset value can be affected by movements in foreign currency exchange rates.

Furthermore many companies trade internationally both through foreign subsidiaries, and through exports. The greatest foreign currency risk occurs when companies have a divergence in currencies for costs and revenues. A much less risky exposure to currency is straight translation of sales and profits. The list of investments on pages 16 to 20 breaks down the portfolio by geographic listing. However the location of the stock market quote only has a limited correlation to the costs, revenues and even activities of those companies, and so this note should not be regarded as a reliable guide to the sensitivity of the portfolio to currency movements. For example, the holdings in the portfolio that have suffered most from US$ weakness are UK companies with dollar revenues and sterling costs.

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 these currency fluctuations because it is impossible to quantify the effect for the reasons stated above. However, from time to time the Manager takes a view by holding financial assets or liabilities in overseas currencies.

Exposure to currency risk through asset allocation by currency of listing is indicated below:

At 31 December 2014

	Investments £'000	Cash and deposits £'000	Loans £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	145,250	15,334	–	44	160,828
Norwegian krone	4,337	–	–	135	4,472
Korean won	13,852	–	–	139	13,991
Taiwan dollar	11,842	3,648	–	–	15,490
Euro	14,606	11	–	26	14,643
Other overseas currencies	18,024	–	–	11	18,035
Exposure to currency risk on translation of valuations of securities listed in overseas currencies	207,911	19,193	–	355	227,459
Sterling	428,997	11,657	(25,000)	(14,196)	401,458
	636,908	30,850	(25,000)	(13,841)	628,917

*Includes net non-monetary assets of £nil.

20. Financial instruments (continued)

(iii) Foreign Currency Risk (continued)

At 31 December 2013

	Investments £'000	Cash and deposits £'000	Loans £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	134,738	8,305	–	8	143,051
Norwegian krone	19,281	–	–	502	19,783
Korean won	14,489	–	–	110	14,599
Taiwan dollar	10,911	1,964	–	–	12,875
Euro	20,842	2	–	10	20,854
Other overseas currencies	10,930	–	–	11	10,941
Exposure to currency risk on translation of valuations of securities listed in overseas currencies	211,191	10,271	–	641	222,103
Sterling	432,875	7,737	(25,000)	(14,112)	401,500
	644,066	18,008	(25,000)	(13,471)	623,603

*Includes net non-monetary assets of £nil.

Foreign currency risk sensitivity

At 31 December 2014, had sterling strengthened by 10% (2013 –10%) in relation to all currencies, with all other variables held constant, total net assets and net return on ordinary activities after taxation would have decreased by the amounts shown below based solely on translation of securities quoted in currencies overseas. A 10% (2013 – 10%) weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. However, companies whose cost base diverges in currency terms from their sales will in the longer term have a significantly greater effect on valuation than simple translation. In the short term investee companies generally cover their currency exposure to varying degrees. There is insufficient publicly disclosed information to quantify this, but in the long term this effect is expected to dwarf simple translation of foreign listings in terms of both risk and reward, because many investee companies trade globally. Furthermore, the country of listing is not necessarily an indication of the geography of some or even any operational activities for investee companies. The Manager does not use financial instruments to protect against currency movements. From time to time financial leverage has been made using debt in overseas currencies.

	2014 £'000	2013 £'000
US dollar	16,083	14,305
Norwegian krone	447	1,978
Korean won	1,399	1,460
Taiwan dollar	1,549	1,288
Euro	1,464	2,085
Other overseas currencies	1,804	1,094
	22,746	22,210

B. Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment which it has entered into with the Company. The Manager monitors counterparty risk on an ongoing basis.

The Company has investments in convertible loan stocks that have an element of equity. These securities are viewed as having a risk profile similar to the equity holdings. This is because the convertibles held are in nascent technology companies that may be loss making and may have weak balance sheets. For this reason these stocks are categorised as equity holdings.

The fixed interest securities held are UK and Norwegian Government securities and UK corporate bonds.

20. Financial instruments (continued)

B. Credit Risk (continued)

Credit Risk Exposure

The exposure to credit risk at 31 December was:

	2014 £'000	2013 £'000
Fixed interest investments	4,337	19,281
Cash and short term deposits	30,850	18,008
Debtors and prepayments	1,253	1,554
	36,440	38,843

The maximum exposure in fixed interest investments was £18,813,000 (2013 – £38,570,000) and the minimum £4,337,000 (2013 – £19,281,000). The maximum exposure in cash was £40,974,000 (2013 – £61,320,000) and the minimum £23,582,000 (2013 – £13,702,000).

None of the Company's financial assets are past due or impaired.

C. Liquidity Risk

The Company's policy with regard to liquidity is to provide a degree of flexibility so that the portfolio can be repositioned when appropriate and that most of the assets can be realised without an excessive discount to the market price.

(a) Equity Securities

The Company's unlisted investments are not readily realisable, but these only amount to 1.5% of the Company's total assets at 31 December 2014 (2013 – 1.5%).

In practice, liquidity in investee companies is imperfect, particularly those with a market value of less than £100 million. To reduce this liquidity risk it is the policy to diversify the holdings and generally to restrict the holding in any one company to less than 10% of the share capital of that company. Furthermore the guideline is for no single investment to account for more than 5% of the assets of the Company.

The market valuation of each underlying security gives an indication of value, but the price at which an investment can be made or realised can diverge materially from the bid or offer price depending on market conditions generally and particularly to each investment. 29% (£183 million) (2013 – 29% (£173 million)) of the portfolio is invested in listed stocks with a market capitalisation below £100 million, where liquidity is expected to be more limited. If these stocks had on average a realisable value 20% below the bid price the value of the total fund would be adversely affected by 5.8% (2013 – 5.5%).

(b) Floating interest rate to fixed interest rate swap

The fair value of the swap is estimated by RBS the provider of the swap and is compared to an external model and external prices. We believe the RBS valuation to be reasonable. The RBS valuation methodology and assumptions may change at any time.

The swap valuation gives an indication of fair value, but the price at which the swap can be unwound or realised may diverge materially from this valuation depending on market conditions and liquidity.

Liquidity Risk Exposure

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:

	2014 One year or less £'000	2013 One year or less £'000
Bank loans	25,120	25,120
Derivative financial instruments	13,808	14,481
Other creditors	1,362	597
	40,290	40,198

20. Financial instruments (continued)

Fair Value of Financial Instruments

Fair values are measured using the following fair value hierarchy:

Level 1: reflects financial instruments quoted in an active market.

Level 2: reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets.

Level 3: reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

The valuation techniques used by the Company are explained in the accounting policies on pages 43 and 44.

The tables below set out the fair value measurements using the fair value hierarchy.

At 31 December 2014

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Equity investments	622,906	–	5,050	627,956
Government debt securities	4,337	–	–	4,337
Other debt securities	–	–	4,615	4,615
Current assets	32,103	–	–	32,103
Total assets	659,346	–	9,665	669,011
Financial liabilities				
Bank loans	25,000	–	–	25,000
Derivatives	–	13,534	–	13,534
Current liabilities (excluding bank loans)	1,560	–	–	1,560
Total liabilities	26,560	13,534	–	40,094
Total net assets	632,786	(13,534)	9,665	628,917

A reconciliation of fair value measurements in Level 3 is set out below:

At 31 December 2014

	Equity Investments £'000
Opening balance at 1 January 2014	9,391
Purchases	950
Sales	0
Total gains or (losses):	
– on assets sold during the year	(1,387)
– on assets held at 31 December 2014	711
Closing balance at 31 December 2014	9,665

20. Financial instruments (continued)

At 31 December 2013

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Equity investments	615,394	–	5,529	620,923
Government debt securities	19,281	–	–	19,281
Other debt securities	–	–	3,862	3,862
Current assets	19,562	–	–	19,562
Total assets	654,237	–	9,391	663,628
Financial liabilities				
Bank loans	25,000	–	–	25,000
Derivatives	–	13,935	–	13,935
Current liabilities (excluding bank loans)	1,090	–	–	1,090
Total liabilities	26,090	13,935	–	40,025
Total net assets	628,147	(13,935)	9,391	623,603

A reconciliation of fair value measurements in Level 3 is set out below:

At 31 December 2013

	Equity Investments £'000
Opening balance at 1 January 2013	12,227
Purchases	2,093
Sales	(2,736)
Total gains or (losses):	
– on assets sold during the year	3,334
– on assets held at 31 December 2013	(5,527)
Closing balance at 31 December 2013	9,391

21. Alternative Investment Fund Managers Directive

The Company's maximum and actual leverage levels at 31 December 2014 were:

	Gross Method	Commitment Method
Maximum amount	2.00	2.00
Actual amount	1.084	1.084

22. Related party disclosures

Other than directors' fees and expenses, for which disclosures appear at page 34, there are no related party transactions to disclose.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Herald Investment Trust plc will be held at 10–11 Charterhouse Square, London EC1M 6EE on 21 April 2015 at 11.30 am for the following purposes:

To consider and, if thought fit, approve resolutions 1 to 7 as ordinary resolutions and resolution 8 as a special resolution.

Ordinary Business

1. To receive and adopt the directors' report, the strategic report and the financial statements and the auditor's report in respect of the year ended 31 December 2014.
2. To approve the directors' remuneration report for the year ended 31 December 2014.
3. To re-elect Mr CJ Cazalet as a director of the Company.
4. To re-elect Mr DCP McDougall as a director of the Company.
5. To re-elect Dr TJ Black as a director of the Company.
6. To reappoint Ernst & Young LLP as independent auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which financial statements are laid before the Company.
7. To authorise the audit committee to determine the remuneration of the independent auditor.

Special Business

8. That, the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued shares of 25p each in the capital of the Company in substitution for any existing authority under section 701 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 (exclusive of expenses) which may be paid for a share shall not be more than the higher of (a) 5% above the average closing price (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange;

   (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 2016; 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.

By order of the Board

Law Debenture Corporate Services Limited

Secretary

Registered Office:

10–11 Charterhouse Square London EC1M 6EE

26 February 2015

NOTICE OF ANNUAL GENERAL MEETING *continued*

NOTES

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. Shareholders may also use the online proxy voting service offered by Capita Asset Services at www.capitashareportal.com to vote or appoint a proxy online. Votes must be received no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting. To vote online, the unique personal identification Investor code printed on the proxy form will be required.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID RA10) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at 10–11 Charterhouse Square, London, EC1M 6EE.
13. Information regarding the AGM, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the Manager's website at www.heralduk.com.
14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
15. As at 26 February 2015 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 77,339,546 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 26 February 2015 were 77,339,546 votes.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No director has a contract of service with the Company.

FURTHER SHAREHOLDER INFORMATION

- **How to invest** The Company's shares 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 Company** The price of shares is quoted daily in the Financial Times, 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 Companies.
- **Key dates** If a dividend is declared in respect of a financial year, it is normally paid late April/early May. The AGM is normally held in April.
- **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. The amount attributable to the warrants for the purpose of capital gains tax is 9.1p per share issued (1994 Annual Report). Any shareholder uncertain of his or her position is recommended to seek expert advice.
- **ISAs** The ordinary shares of the Company are qualifying investments for individual saving accounts.
- **Electronic proxy voting** If you hold stock in your own name you can choose to vote by returning proxies electronically at www.capitashareportal.com. If you have any questions about this service please contact Capita Asset Services on 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30 am to 5.30 pm Monday-Friday).
- **Mainstream investment** The Company conducts its affairs so that its ordinary shares are capable of being recommended by independent financial advisors to ordinary retail investors in accordance with relevant FCA rules. Our ordinary shares are, we consider, mainstream investment products because they are shares in an investment trust. The Company intends to continue conducting its affairs for the foreseeable future so that the ordinary shares can continue to be categorised as mainstream.

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

- Participation in a diversified portfolio of shares.
- Constant supervision by experienced professional managers.
- The Company is free 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.