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**HERALD INVESTMENT
MANAGEMENT LIMITED**

**Annual Report and Accounts
For the Year to 31st March 2006**



HERALD INVESTMENT MANAGEMENT LIMITED

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HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS

K J Potts
Chairman & Managing Director

D T A Boyle DL
Non - Executive Director

A F Rose
Finance Director

SECRETARY

A F Rose

REGISTERED OFFICE

10-11 Charterhouse Square
London
EC1M 6EE

AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF

REGISTERED IN ENGLAND

No: 2877061

BANKERS

Barclays Bank
Hatton Garden Business Centre
99 Hatton Garden
London
EC1N 8DN

SOLICITORS

Macfarlanes
10 Norwich Street
London
EC4A 1BD

HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements of the company for the year ended 31st March 2006.

RESULTS AND DIVIDENDS

The results for the year to 31st March 2006 are set out on page 8 of the financial statements and the movement in reserves are shown in note 13.

The Directors have approved a final dividend of £250,000 (2005: £1,031,925).

An interim dividend of £663,797 was paid on 27th January 2006. A second interim dividend of £227,000 was paid on 17th March 2006 and a third interim dividend of £605,611 was paid on 31st March 2006. After deduction of dividends of £1,746,408 a retained profit of £93,040 (2005: loss of £5,092,785) was transferred to reserves. The profit and loss account carried forward is £106,536.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was that of investment management and advice from which it derives its income.

BUSINESS REVIEW

The Company manages a number of investment vehicles whose mandates are to invest in companies which are involved in technology, media and telecommunications internationally. Investee companies range from unquoted companies through small to large quoted companies.

Performance during the year has been satisfactory with assets under management increasing 13.5% to £442m.

The Directors are satisfied with the Company's trading results and with the state of affairs of the Company at the balance sheet date.

The principal risk facing the company is that clients may find the funds performance unsatisfactory and withdraw the company's mandate. The company's main fund has a one year notice period and a continuation vote every three years.

DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 31st March 2006 are listed on page 3.

The Directors' beneficial interests in the share capital of HIML Holdings Limited, the company's parent, were as follows: -

1st April 2005 and 31st March 2006 **Ordinary shares of 0.1p each**

K J Potts	340,000 fully paid shares
D T A Boyle	6,000 fully paid shares
	5,000 nil paid share
A F Rose	5,000 nil paid shares

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the Directors' report are listed on page 3 of these financial statements. Each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

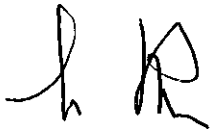
HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

AUDITORS

A resolution to re-appoint Ernst & Young LLP, Registered Auditors, of 1 More London Place, London SE1 2AF, as auditors of the Company will be proposed at the Annual General Meeting.

By order of the Board



A F Rose
Company Secretary

18 May 2006

HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are required to prepare accounts for each accounting period that comply with the relevant provisions of the Companies Act 1985 and the applicable Accounting Standards recognised in the United Kingdom, and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period. A fair presentation of the accounts in accordance with the applicable Accounting Standards requires the directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in the applicable Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable Accounting Standards

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF HERALD INVESTMENT MANAGEMENT LIMITED

We have audited the company's financial statements for the year ended 31st March 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Basis of audit opinion

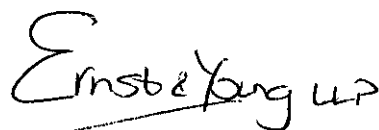
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st March 2006 and of its profit for the year then ended;
the financial statements have been properly prepared in accordance with the Companies Act 1985; and
the information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP
Registered auditor
London

12 May 2006

HERALD INVESTMENT MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2006

	<u>Notes</u>	<u>2006</u> £	<u>2005</u> £
Turnover	2	4,746,835	4,103,459
Other income		39,813	378,367
Administrative expenses		(2,335,463)	(1,947,669)
OPERATING PROFIT	3	2,451,185	2,534,157
Net profit on sale of investments		165,923	254,535
Interest received	5	62,870	54,510
Interest paid		0	(187,051)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,679,978	2,656,151
Taxation	6	(840,530)	(771,945)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,839,448	1,884,206
Dividends - Interim	7	(1,496,408)	(5,945,066)
Dividends - Final	7	(250,000)	(1,031,925)
RETAINED PROFIT/(LOSS) FOR THE YEAR	13	<u>93,040</u>	<u>(5,092,785)</u>
Earnings per share	12	210.9p	208.5p

Statement of total recognised gains and losses

There were no recognised gains or losses other than the profit attributable to the shareholders of the Company.

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED

BALANCE SHEET AT 31st MARCH 2006

	Notes	<u>2006</u>	<u>2005</u>
		£	£
FIXED ASSETS			
Tangible assets	8	70,154	30,966
Investments	9	<u>750,337</u>	<u>1,985,232</u>
		820,491	2,016,198
CURRENT ASSETS			
Debtors	10	502,573	474,115
Cash at bank and in hand		<u>764,817</u>	<u>403,281</u>
		1,267,390	877,396
CREDITORS			
Amounts falling due within one year	11	<u>919,845</u>	<u>1,818,598</u>
NET CURRENT ASSETS / (LIABILITIES)		347,545	(941,202)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,168,036</u>	<u>1,074,996</u>
CAPITAL RESERVES			
Called up share capital	12	872	872
Capital redemption reserve		15,193	15,193
Share premium account		1,045,435	1,045,435
Profit and loss account	13	106,536	13,496
SHAREHOLDERS' FUNDS	14	<u>1,168,036</u>	<u>1,074,996</u>

Approved and authorised for issue on behalf of the board

K J Potts
Chairman & Managing Director

A F Rose
Finance Director



8 May 2006

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31st MARCH 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities	15	2,391,069	2,601,602
Returns on investments and servicing of finance			
Interest received		62,437	65,885
Interest paid		0	(187,051)
Net cash inflow (outflow) from returns on investments and servicing of finance		62,437	(121,166)
Taxation			
UK Corporation tax paid		(887,182)	(682,716)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(77,273)	(9,230,379)
Sale of tangible fixed assets		0	9,219,378
Payments to acquire investments		0	(1,019,477)
Receipt from sale of investments		368,893	3,577,214
Net cash inflow for capital expenditure and financial investment		291,620	2,546,735
Equity dividends paid		(1,496,408)	(5,945,066)
Net cash inflow (outflow) before financing		361,536	(1,600,611)
Financing			
Loan received		0	6,975,000
Loan repaid		0	(6,975,000)
Repurchase of Ordinary shares		0	(2,006,486)
Net cash outflow from financing		0	(2,006,486)
Increase/(decrease) in net cash		361,536	(3,607,096)

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31st MARCH 2006**

1. ACCOUNTING POLICIES

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost convention and are in accordance with applicable Accounting Standards

In the year to 31st March 2004 Herald Investment Management Limited reduced the share premium element when contingent nil paid shares were cancelled. In the year to 31st March 2005 this treatment was changed and a prior year adjustment was made for the shares cancelled in the year to March 2004.

FIXED ASSETS

All fixed assets are initially recorded at cost.

DEPRECIATION

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset over its expected useful life as follows: -

Fixtures and fittings – 33 1/3% straight line.

Computer equipment is written off immediately on purchase.

Depreciation is not provided on assets with an indefinite useful life, such as decorative items. Impairment is considered annually and the amount is immaterial.

Intangible assets – 33 1/3% straight line.

DEFERRED TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

A deferred tax asset is only recognised when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the asset can be offset.

LEASING COMMITMENTS

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

PENSIONS

The Company makes payments to several employees' personal pension plans. The pension charge represents the amounts payable by the Company to these plans in respect of the year.

INVESTMENTS

Investments held for the long term are shown at cost. Permanent impairments in value are written off to the profit and loss account. Realised profits and losses are accounted for in the profit and loss account of the period in which the disposal occurs.

CONSOLIDATION

The Company does not publish consolidated financial statements, being exempt from the requirement under S228 of the Companies Act 1985, because the Company is included in audited financial statements of HIML Holdings Ltd.

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2006

2. TURNOVER

The turnover and pre-tax profit are attributable to the principal activity of the Company, which is conducted wholly in the United Kingdom.

3. OPERATING PROFIT

	<u>2006</u>	<u>2005</u>
	<u>£</u>	<u>£</u>
(a) This is stated after charging:		
Directors' remuneration (see below)	364,645	395,851
Auditors' remuneration	15,769	17,631
Depreciation charge	38,085	17,812
Operating property lease rentals	162,203	120,801
(b) Directors' remuneration:		
Other emoluments (including benefits in kind)	348,145	379,351
Pension contributions	16,500	16,500
	<u>364,645</u>	<u>395,851</u>

(c) The emoluments of the highest paid director, who is also the chairman, excluding pension contributions, were £210,000 (2005: £210,000). The pension contributions of the highest paid director were £16,500. (2005: £16,500)

4. STAFF COSTS (including directors)

	<u>2006</u>	<u>2005</u>
	<u>£</u>	<u>£</u>
Wages and salaries	1,030,504	985,698
Social security costs	122,988	115,406
Pension costs	50,965	31,960
	<u>1,204,457</u>	<u>1,133,064</u>
Average monthly number of employees	<u>13</u>	<u>12</u>

5. INTEREST

	<u>2006</u>	<u>2005</u>
	<u>£</u>	<u>£</u>
Interest receivable	62,870	54,510
Interest payable	0	(187,051)
Net interest receivable/(payable)	<u>62,870</u>	<u>(132,541)</u>

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st MARCH 2006

6. TAXATION

	<u>2006</u>	<u>2005</u>
	£	£
UK Corporation tax on profits of the year	840,530	768,319
Adjustments in respect of previous periods	0	3,626
Tax on profit on ordinary activities	<u>840,530</u>	<u>771,945</u>

Factors affecting the tax charge for the period

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK

The differences are explained below.

Profit on ordinary activities before taxation	<u>2,679,978</u>	<u>2,656,151</u>
Corporation tax at 30% (2003: 30%)	803,993	796,845
<i>Adjusted for:</i>		
Disallowed expenses and non-taxable income	107,617	(3,398)
Depreciation in excess of capital allowances	(21,303)	(1,468)
Other timing differences	0	(7,890)
(Profit)/loss on sale of investments	(49,777)	(15,770)
Under provision for prior year	0	3,626
Tax charge for the year	<u>840,530</u>	<u>771,945</u>

There is an unrecognised deferred tax asset of £48,907 arising from timing differences on accelerated capital allowances and general provisions

7. DIVIDENDS

	<u>2006</u>	<u>2005</u>
	£	£
Interim dividend paid	663,797	1,005,000
Second interim dividend	227,000	4,940,066
Third interim dividend	605,611	0
Final dividend payable	250,000	1,031,925
Total dividends for the year	<u>1,746,408</u>	<u>6,976,991</u>

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st MARCH 2006

8. FIXED ASSETS

	Fixtures & Fittings £
<i>Cost:</i>	
At 1st April 2005	286,912
Additions	77,273
Disposals	0
At 31st March 2006	<u>364,185</u>
<i>Depreciation:</i>	
At 1st April 2005	255,946
Provided during the year	38,085
On disposals	0
At 31st March 2006	<u>294,031</u>
<i>Net book value:</i>	
At 31st March 2005	<u>30,966</u>
At 31st March 2006	<u>70,154</u>

9. INVESTMENTS

	<u>Listed</u>	<u>Unlisted Subsidiaries</u>	<u>Total</u>
	£	£	£
Net Book Value at 31st March 2005	1,984,895	337	1,985,232
Additions	0	0	0
Disposals	(1,234,895)	0	(1,234,895)
Net Book Value at 31st March 2006	<u>750,000</u>	<u>337</u>	<u>750,337</u>

The market value of the listed investments at 31st March 2006 was £1,066,287 (2005 - £3,070,768); if they had been sold at this value there would have been a liability to tax of £87,588 (2005 - £355,906). The listed investments include 22,500 shares in Herald Worldwide Fund which are linked to bonuses granted to certain employees.

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

<u>Name of Company</u>	<u>Holding</u>	<u>% of voting rights and shares held</u>	<u>Nature of Business</u>
Herald GP Limited	Ordinary Shares	100%	Limited Partnership General Partner
Herald GP II Limited	Ordinary Shares	100%	Limited Partnership General Partner
Herald Jersey Ventures Limited	Voting Shares	54%	Carried interest vehicle
Herald Ventures II CP Ltd	Partnership capital	20.6%	Carried interest vehicle
Herald Ventures Scotland (GP) Limited	Ordinary shares	100%	Limited Partnership General Partner

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st MARCH 2006

10. DEBTORS

	<u>2006</u>	<u>2005</u>
	£	£
Trade debtors	12,769	14,939
Prepayments and accrued income	451,508	375,416
Called up share capital not paid	0	-
Amounts owed by related companies	37,406	33,785
Other debtors	890	49,975
	<u>502,573</u>	<u>474,115</u>

11. CREDITORS: Amounts falling due within one year

	<u>2006</u>	<u>2005</u>
	£	£
Trade creditors	72,097	87,167
Corporation tax payable	356,464	403,116
Other taxes and social security costs	35,800	73,132
Dividends payable	250,000	1,031,925
Accruals and deferred income	205,484	223,258
	<u>919,845</u>	<u>1,818,598</u>

12. SHARE CAPITAL

	<u>2006</u>	<u>2005</u>
	£	£
<i>Authorised:</i>		
10,000,000 ordinary shares of 0.1p each	10,000	10,000
15,000 8% cumulative redeemable preference shares	15,000	15,000
5,000,000 deferred shares of 0.1p each	5,000	5,000
	<u>30,000</u>	<u>30,000</u>
	<u>2006</u>	<u>2005</u>
	£	£
<i>Allotted and called up:</i>		
872,175 (2005: 872,175)ordinary shares of 0.1p each, fully paid	872	872
	<u>872</u>	<u>872</u>

The deferred shares have no rights to dividends or votes in general meetings of the company. On liquidation the holders of deferred shares shall be entitled to the amount paid up, but only after holders of Ordinary shares have received £1,000,000 per share.

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st MARCH 2006

13. RESERVES

	Profit and Loss Account £
Balance at 1st April 2005	13,496
Profit on ordinary activities after tax	1,839,448
Dividend	(1,746,408)
Balance at 31st March 2006	<u>106,536</u>

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2006</u>	<u>2005</u>
	£	£
Profit for the financial year	1,839,448	1,884,206
Dividend	(1,746,408)	(6,976,991)
Retained profit / (loss) for the year	<u>93,040</u>	<u>(5,092,785)</u>
Repurchase of shares	0	(2,626,985)
Opening shareholders' funds	1,074,996	8,794,766
Closing shareholders' funds	<u>1,168,036</u>	<u>1,074,996</u>

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities	<u>2006</u>	<u>2005</u>
	£	£
Operating profit	2,451,185	2,534,157
Depreciation charges	38,085	17,812
(Increase) in debtors	(28,025)	(20,744)
(Decrease) / increase in creditors	(70,176)	70,377
Net cash inflow from operating activities	<u>2,391,069</u>	<u>2,601,602</u>
(b) Analysis of changes in net cash in hand and at bank	£	£
At 1st April 2005	403,281	4,010,377
Cash flows	361,536	(3,607,096)
At 31st March 2006	<u>764,817</u>	<u>403,281</u>

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st MARCH 2006

16. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases expiring:

	<u>Land and buildings</u>	
	<u>2006</u>	<u>2005</u>
Less than one year	-	£85,000
Between two and five years	£230,000	-

17. RELATED PARTY TRANSACTIONS

The ultimate holding company and controlling party of the Company is HIML Holdings Limited, a company incorporated in England and Wales. Copies of the accounts are available from Companies House, Crown Way, Cardiff, CF4 3UZ.

The Company has taken advantage of the exemptions in FRS 8 from disclosing related party transactions with other group companies.