MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2010

The Montanaro UK Smaller Companies Investment Trust PLC ("MUSCIT") was launched in March 1995 and is listed on the London Stock Exchange.

Investment Objective

MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on the Alternative Investment Market ("AIM") and to achieve relative outperformance of its benchmark, the FTSE SmallCap (excluding investment companies) Index ("SmallCap"). No unquoted investments are permitted.

Highlights
for the year ended 31 March 2010

Results

> NAV +54% (£101m)

> Gross assets +59% (£113m)

> Share price +53% (market capitalisation £78m)

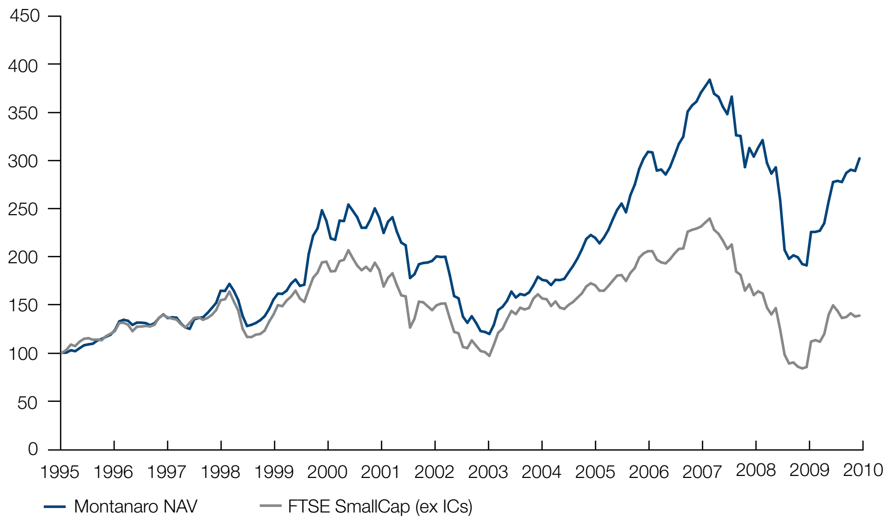
> FTSE SmallCap (excluding investment companies) Index +63%

	Year to 31 March 2010	Year to 31 March 2009
Revenue return on ordinary activities (£000)	2,296	2,465
Movement in capital reserve (£000)	36,704	(37,721)
Revenue return per Ordinary share	6.86p	7.36p
Dividend per Ordinary share	6.20p*	6.85p**
Total return per Ordinary share	116.50p	(105.18)p

	As at 31 March 2010	As at 31 March 2009
Ordinary share price	234.00p	153.00p
NAV per Ordinary share	302.59p	195.94p

*Includes 3p interim dividend paid December 2009.
**Includes 1.99p in respect of VAT refund.

NAV Performance vs SmallCap



Chairman's Statement

"Over the longer term, investors will continue to prefer the greater predictability and security of well-managed high quality businesses with good prospects at times of economic uncertainty."

Highlights 2010

- In the year to 31 March 2010, the NAV of MUSCIT increased by 54% to 302.6p in comparison with a 63% rise by the SmallCap.
- Since launch, the NAV of MUSCIT has increased by 203% in comparison with a gain of 39% by the SmallCap outperforming by 164%.
- Dividend income rose 23% in the year allowing the Company to pay an interim dividend of 3 pence and recommend a final dividend of 3.20 pence per share. Compared to a total dividend in 2009 of 6.85p including 1.99p in respect of the VAT refund.

Background

I am pleased to present the 15th annual report of MUSCIT, which was launched in March 1995. In 1996, the initial investment of £25 million was increased in size through a £30 million "C" share issue. Net assets now stand at £101 million.

An investment trust is an attractive vehicle for shareholders to invest in quoted UK "smaller" companies, which are less well researched and more illiquid than larger, blue chip companies.

Performance

In the year to 31 March 2010, the NAV of MUSCIT increased by 54% to 302.6p in comparison with a 63% rise in the SmallCap.

Since launch, the NAV of MUSCIT has increased by 203% in comparison with a gain of 39% by the SmallCap, outperforming by 164%.

Discount

The discount of MUSCIT's share price to NAV stood at 23% on 31 March 2010 in comparison with a weighted sector average of 15% (Source: Close Wins Investment Trusts).

Share Buy Backs

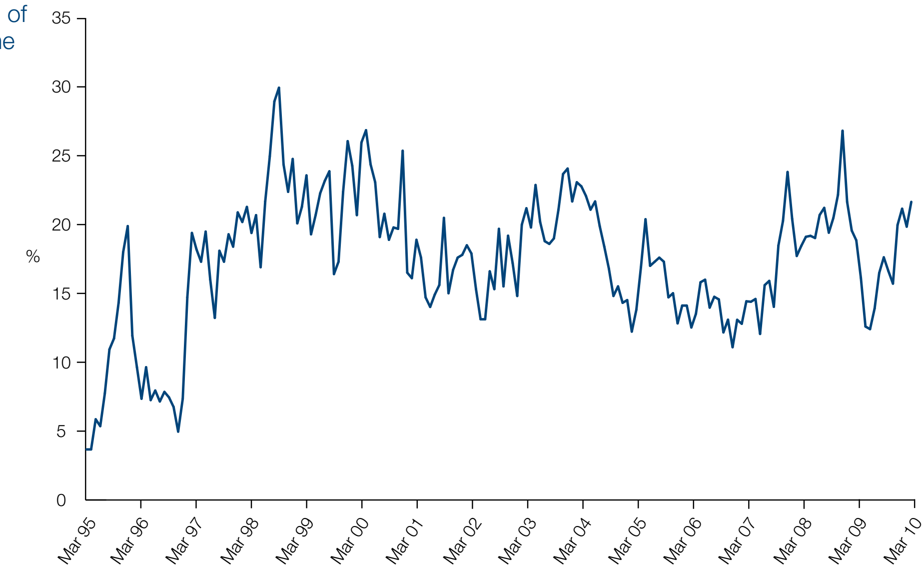
The Board is responsible for share buy backs which are undertaken at arm's length from the Manager.

No shares were bought back during the year.

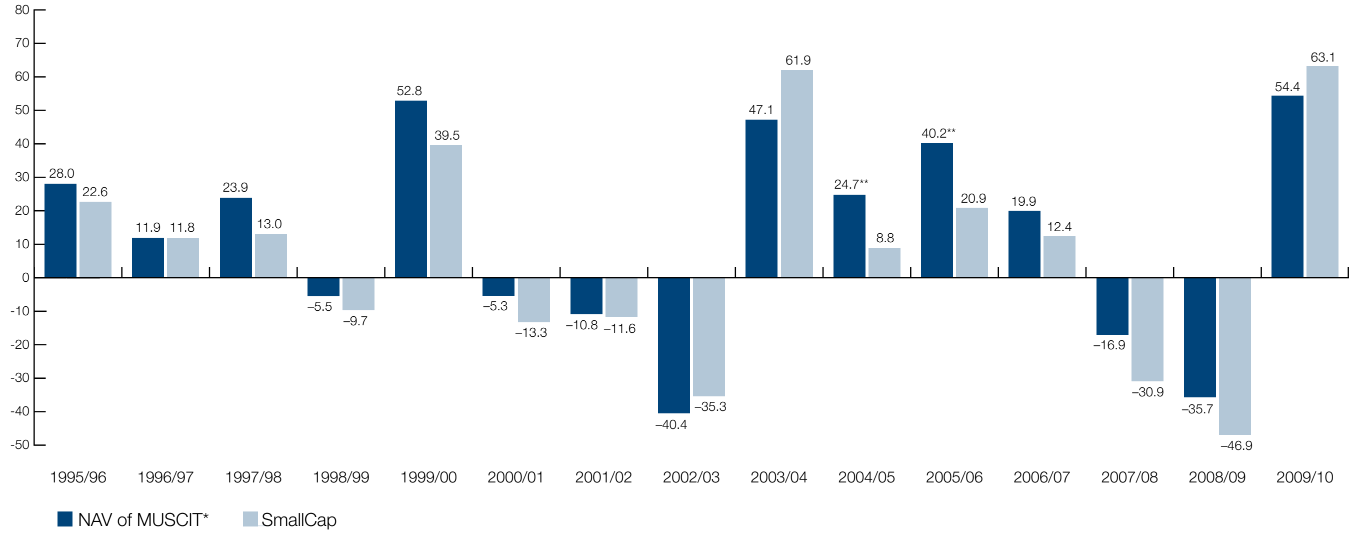
Holding Shares in Treasury

Since December 2003, investment trusts have had the right to buy back shares and hold them in Treasury for re-issue at a later date. This has the benefit of improving liquidity as well as retaining the opportunity to enhance the NAV.

Share Price Discount to NAV



Annual NAV Performance vs SmallCap



*Years 1–3 undiluted NAV, years 4–5 diluted NAV and years 6–13 basic NAV as no longer any warrants in issue.
**Restated for changes to UK GAAP (all other years have not been restated).

The Board has actively and carefully considered the use of Treasury Shares and has been among the industry's pioneers. Our policy is to ensure that shareholders receive a tangible benefit above and beyond an enhanced ability to manage the liquidity of the shares of MUSCIT. Shares held in Treasury will only be re-issued at a lower discount than when they were originally purchased and to produce a positive absolute return. Shares not re-issued will be cancelled within one year from purchase.

As at 31 March 2010 no shares were held in Treasury.

Gearing

The Board reviews the level of gearing considered appropriate for the Company in discussion with the Manager. One of the benefits of investment trusts is the ability to hold prudent levels of gearing which can enhance investment returns. The Board has agreed to limit borrowings to 25% of shareholders' funds

Throughout the year the Company had a £15 million facility with ING Bank. At 31 March 2010, £10 million was drawn down at an interest rate of 1.84%. The remaining £5 million was drawn down on 13 April 2010 at a rate of 1.50%.

During the year, net gearing ranged from a net cash position of 1.8% to gearing of 10.5%. At 31 March 2010, net gearing was 7.7%.

Dividends

MUSCIT's primary focus is on capital growth rather than income however, dividend income has risen by 23% over last year and the Board took the opportunity to pay a 3p per share interim dividend on 18 December 2009. The Board proposes a final dividend of 3.20p per Ordinary share payable on 13 August 2010 to shareholders on the register at the close of business on 2 July 2010 making a total dividend in respect to the year ended 31 March 2010 of 6.20p per share.

Corporate Governance

The Directors have thoroughly reviewed the recommendations of the 2008 Combined Code on Corporate Governance (the "Code") and have implemented procedures where appropriate, such as an annual evaluation of the Board's performance. MUSCIT has complied with the Code throughout the year except where compliance would be inappropriate given the size and nature of MUSCIT. Full disclosure of MUSCIT's compliance with the Code is included in the Directors' Report.

The use of an internal audit function is not considered necessary given the inherent segregation of duties and internal controls.

Chairman's Comment

The 12 months to 31 March 2009 had been a historic period in terms of the economic environment. This culminated in the SmallCap reaching a low on 12 March 2009, a level not seen previously since 1993. The subsequent 74% recovery (to the end of March 2010) is almost as remarkable. Much of this recovery came from an increased appetite for risk which, at the extreme margins, was a "dash for trash". Companies that once were priced for receivership saw a sharp upturn as confidence returned and rescue equity rights issues were seen.

The world's major economic powers have acted unilaterally to shore up the banking system through a variety of measures including most notably "quantitative easing". UK interest rates dropped to record lows and government debt reached record highs. Credit spreads narrowed and availability of credit improved. The UK economy, which is more service based than our counterparts in Europe, went into the recession earlier and appears to be coming out later. The General Election has resulted in a coalition government which, although seemingly

Chairman's Statement continued

relatively market friendly, is new. Therefore investors remain uncertain about its performance in the light of very challenging circumstances. Furthermore, at the time of writing, the Euro crisis has created further uncertainty and volatility. This, together with cessation of quantitative easing in the future and likely fiscal tightening in 2011, leaves a somewhat uncertain backdrop to the UK economy. It has led to a further bout of sterling weakness and increased concerns about an economic "double dip" recession. On the other hand, emerging market economies are in good shape and many smaller companies are benefiting from the growth in demand there. Sterling's weakness will be helpful to exporters. Investor sentiment is still cautious and many investors hold significant amounts of cash, having missed the rally in 2009. In addition, takeover activity should pick up this year as better capitalised companies take advantage of attractive valuations.

Over the longer term, investors will continue to prefer the greater predictability and security of well-managed high quality businesses with good prospects at times of economic uncertainty. Not all companies have survived the difficult times of the recent recession. Those that have done so are now leaner and more efficient, in a better position to increase market share and gradually raise margins and profits. Montanaro's focus on these high quality growth companies should fare well at such times as these.

Laurie Petar resigned from the Board on 16 June 2010 for personal reasons. Laurie has made an outstanding contribution to the Board over many years. His knowledge, humour and good common sense have been a really positive contribution to the Trusts' success, we will miss him.

As we announced in the half yearly report, Christopher Jones has decided to retire at the end of the AGM on 30 July 2010, Christopher has been an outstanding Senior Independent Director for many years and I thank him for his contribution. We are delighted to welcome Kathryn Matthews to the Board of Directors. Kathryn's biography is included on page 10 of this report. As a consequence of Christopher Jones's intention to retire at the AGM, the Board will appoint Roger Cuming to the post of Senior Independent Director. He will also chair the Nominations, Management Engagement, and Remuneration Committees.

Finally, I am pleased to report that Charles Montanaro, assisted by Adam Rackley, has resumed the role of portfolio manager (at Montanaro Asset Management) responsible for managing MUSCIT.

DAVID GAMBLE
Chairman
21 June 2010

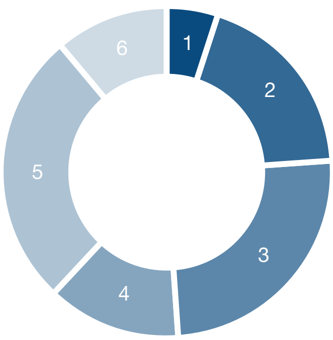
Manager's Report

"We expect mergers and acquisitions to be a notable feature over coming months, dominated by trade buyers. The weakness in sterling leaves many UK companies looking cheap as far as overseas investors are concerned."

Highlights 2010

– 62% of our holdings are in companies with a market capitalisation of under £300 million.

Market Cap by Value of Holding



1	£0-£50m	5%
2	£50-£100m	19%
3	£100-£200m	25%
4	£200-£300m	13%
5	£300-£600m	27%
6	>£600m	11%

Portfolio Review

In most market and economic cycles, Montanaro outperform as a result of our focus on the highest quality companies and a fundamental long-term investment approach based on detailed in-house research. The exceptions are typically periods of recovery from deep Bear Markets, occasions that (fortunately) occur infrequently. Since the launch of the Company 15 years ago, two such periods were between March and September in 2003 and six years later in 2009. As investor confidence and appetite for risk recovers, so high risk, high beta stocks often do well at these times. Nonetheless, we do not change our investment style but rather always "stick to our knitting".

50 of the 61 companies in the portfolio a year ago remain in the portfolio, reflecting our belief in long-term investment. Of the 11 that are no longer in the portfolio, three were taken over (BPP, Venture Production and Care UK) and eight were sold as we found higher quality investments to replace them.

The sharp rise in share prices has been driven by the refinancing of the banking system. Quantitative easing implemented throughout the world finally led to an improvement in demand and economic recovery. Management teams who had taken an overly cautious view on 2009, led to many upgrades in earnings forecasts and a significant recovery in share prices. 18 portfolio holdings saw their share prices double during the year under review.

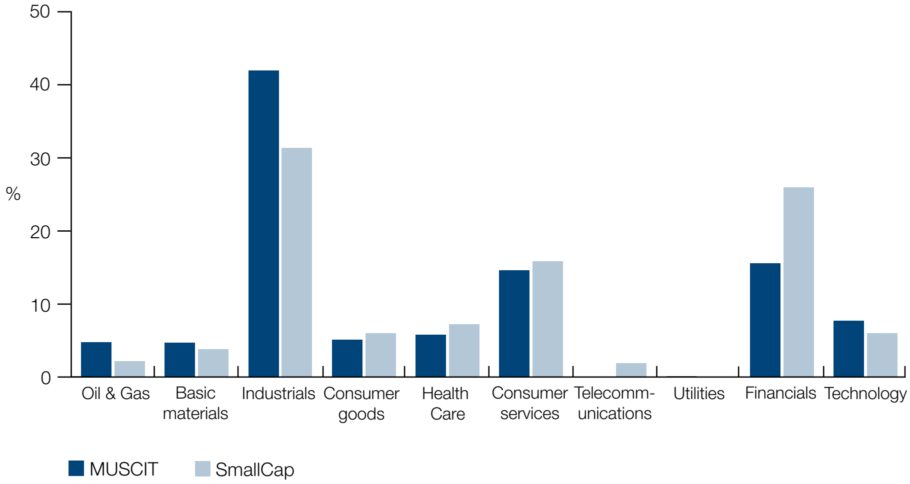
Many companies raised new financing last year and concerns over balance sheets are largely a thing of the past. Those with strong market positions have emerged from the recession in good shape with higher levels of cash than expected by still cautious analysts. We expect mergers and acquisitions to be a notable feature over coming months, dominated by trade buyers as private equity continues to face challenges. The weakness in sterling leaves many UK companies looking cheap as far as overseas investors are concerned. This is particularly the case for US companies looking to increase their exposure to Europe. As we enter the new financial year, one of our long-term holdings, Rensburg Sheppards, has received a take-over offer at a premium of almost 50% which indicates the considerable value within the portfolio.

Whilst in the previous financial year we commented on the fact that many defensive counter cyclical companies contributed to the Company's outperformance, in the year under review it has been somewhat different. The strongest contributors have been companies which might best be described as either special or recovery situations and – in the case of BPP – a take-over. Senior and Domino Printing Sciences have recovered strongly as component and capital equipment (printers) purchasing patterns improved. Carclo saw investors place considerable value on new products from its CIT development business. Similarly Dialight (LED lighting) and Immunodiagnostic Systems (Vitamin D testing) have risen strongly as investors appreciated the prospects for these products.

On the downside, in marked contrast to last year, some of the more defensive companies (e.g. Dechra Pharmaceuticals and Consort Medical) lagged the sharp recovery in the stock market. Some late

Manager's Report continued

Sector Distribution vs SmallCap



cyclical companies such as Marshalls and James Fisher performed similarly.

However, not a single investment in the portfolio at the end of the year recorded a fall in its share price over the previous 12 months. A benefit of having one of the largest specialist research teams in the UK is having the resources that can help to avoid profit warnings and companies that disappoint.

Annual Returns

The year under review saw a return to the outperformance of SmallCap companies. The SmallCap rose by 63% compared to the 47% rise in the FTSE All Share Index.

The Company recovered as the NAV rose by over 54%. However, as in 2003/4, the Company underperformed its benchmark, but by far less than six years previously. The Company has outperformed its benchmark in 12 out of the last 15 years. The portfolio now has a 35% weighting in the FTSE 250 as at 31 March 2010 which compares to 41% at 31 March 2009.

The Company's AIM exposure is closely monitored by the Board and is limited to 30% of total investments with Board approval required for exposure to be above 25%. AIM represented 20% of the portfolio at the year end compared to a high point of 25% in November 2009. This is likely to decrease from here as a number of companies are expected to move to a full listing.

As the chart on page 5 illustrates, we remain invested in "smaller" companies with almost two thirds invested in companies with a market capitalisation of under £300 million.

Market Outlook

The last decade was the first in over a century in which UK equities underperformed both in cash and bonds as the long equity bull market of the 90s came to an end. There then followed a number of crises including 9/11 and the collapse of Lehman Brothers. When there is panic, small companies underperform as investors seek the safety of more liquid larger companies or cash. Confidence measures such as the German IFO indicator are currently positive. Deflation fears have eased, credit spreads have narrowed and GDP forecasts are being revised upwards, all positive signs indicating that the recovery in share prices seen already was both justified and may be sustainable based on the economic recovery currently underway.

So what of market valuations? The price to book is now 1.4x compared to a peak of 2.5x and the forward price/earnings ratio stands at around 12x compared to a longer term median of nearer 14x. SmallCap Index earnings fell both in 2008 and 2009 but are now forecast to be back on an upward trend in 2010.

At 31 March 2010, the SmallCap remains 43% below the peak seen in mid 2007. Although it has risen by some 75% from its low, it would need to rise by this same amount again to reach its previous peak. History shows that after two years of negative returns, such as we saw in 2007 and 2008, equity markets usually have a strong recovery over the subsequent two years. Over the past 50 years, the SmallCap Index has outperformed by over 7% each year during Bull markets. This current Bull market is now just one year old – compared with an average duration of 54 months – and should have a long way still to go. We remain positive about the outlook.

CHARLES MONTANARO
Montanaro Asset Management Limited
21 June 2010

Description of Thirty Largest Holdings

as at 31 March 2010

Domino Printing Sciences PLC
An international group providing total coding and printing solutions to a wide portfolio of market sectors.

Chloride Group PLC
International electronics group, manufacturing products to protect sensitive electrical equipment against power loss and power surges.

Dignity PLC
The UK's largest provider of funeral related services.

Ricardo PLC
The leading UK independent automotive consultancy.

Senior PLC
Designs, manufactures and markets components and systems for the civil aerospace, defence, diesel engine, exhaust system and energy markets.

Fisher (James) & Sons PLC
Provider of specialist marine support services and operator of tankships around UK coastal waters.

Hill & Smith Holdings PLC
One of the largest suppliers of galvanised steel to the UK infrastructure, building and construction industries.

Latchways PLC
World leader in the design, manufacture and sale of safety systems for individuals working at height.

Domino's Pizza UK & IRL PLC
The UK and Ireland's leading pizza delivery company.

Immunodiagnostic Systems Holdings PLC
A producer of diagnostic testing kits for the clinical and research markets, focusing on immunoassays used in the area of bone disease particularly Vitamin D.

Dialight PLC
Applied LED technology (energy saving, improved safety and easy disposal) for industrial and commercial uses including obstruction lighting, traffic and rail signalling.

Brewin Dolphin PLC
The UK's largest independent private client Investment Manager.

Dana Petroleum PLC
Independent oil and gas exploration and production company.

Victrex PLC
The world's largest manufacturer of PEEK, a high performance thermoplastic.

Rensburg Sheppards PLC
UK based investment management company.

NCC Group PLC
A provider of Escrow Solutions, Assurance Testing and Consultancy.

Barr (AG) PLC
The soft drink group, best known for producing Irn Bru.

Chemring Group PLC
A specialist manufacturer of decoy countermeasures and energetic materials for the global defence, security and safety markets.

Hargreaves Services PLC
A leading provider of transport and support services to the energy and waste sectors.

WSP Group PLC
International consulting engineers with activities in the UK, Scandinavia and United States.

Dechra Pharmaceuticals PLC
Manufacturer and distributor of veterinary products and pharmaceuticals.

Albemarle & Bond Holdings PLC
The UK's market leading pawnbroking business.

Premier Oil PLC
Independent oil and gas exploration and production company.

Devro PLC
Producers of manufactured casings for the food industry, supplying a wide range of products and technical support to manufacturers of sausages, salami, hams and other cooked meats.

Microgen PLC
Business Process Management software, principally for the financial services sector.

Brammer PLC
A pan-European technical distributor of power transmission components.

Brooks Macdonald Group PLC
Integrated private client asset management and financial services company.

Kewill PLC
Provider of solutions (software) that simplify global trade and logistics.

M.P. Evans Group PLC
A producer of Indonesian palm oil and Australian beef cattle.

Mears Group PLC
A leading social housing repairs and maintenance provider with a growing presence in the domiciliary care market.

Fifty Largest Holdings

as at 31 March 2010

Holding	Sector	Value £000	% of portfolio	Market cap £m
Domino Printing Sciences PLC	Electronic and Electrical Equipment	2,968	2.7	425
Chloride Group PLC	Electronic and Electrical Equipment	2,941	2.7	553
Dignity PLC	General Retailers	2,654	2.4	395
Ricardo PLC	Support Services	2,565	2.3	154
Senior PLC	Aerospace and Defence	2,557	2.3	442
Fisher (James) & Sons PLC	Industrial Transportation	2,496	2.3	215
Hill & Smith Holdings PLC	Industrial Engineering	2,480	2.2	265
Latchways PLC	Support Services	2,384	2.2	76
Domino's Pizza UK & IRL PLC	Travel and Leisure	2,372	2.2	542
Immunodiagnostic Systems Holdings PLC	Health Care Equipment & Services	2,251	2.0	213
Ten Largest Holdings		25,668	23.3	
Dialight PLC	Electronic and Electrical Equipment	2,250	2.0	76
Brewin Dolphin PLC	General Financials	2,178	2.0	334
Dana Petroleum PLC	Oil and Gas Producers	2,104	1.9	1,112
Victrex PLC	Chemicals	2,090	1.9	735
Rensburg Sheppards PLC	General Financials	2,090	1.9	378
NCC Group PLC	Software and Computer Services	2,046	1.9	125
Barr (AG) PLC	Beverages	2,037	1.8	371
Chemring Group PLC	Aerospace and Defence	1,987	1.8	1,170
Hargreaves Services PLC	Support Services	1,971	1.8	175
WSP Group PLC	Support Services	1,957	1.8	185
Dechra Pharmaceuticals PLC	Pharmaceuticals and Biotechnology	1,953	1.8	274
Albemarle & Bond Holdings PLC	General Financials	1,946	1.8	136
Premier Oil PLC	Oil and Gas Producers	1,914	1.7	1,437
Devro PLC	Food Producers	1,871	1.7	263
Microgen PLC	Software and Computer Services	1,862	1.7	71
Brammer PLC	Support Services	1,822	1.7	140
Brooks Macdonald Group PLC	General Financials	1,776	1.6	71
Kewill PLC	Software and Computer Services	1,736	1.6	79
M.P. Evans Group PLC	Food Producers	1,713	1.5	200
Mears Group PLC	Support Services	1,684	1.5	235
Thirty Largest Holdings		64,655	58.7	
Zytronic PLC	Electronic and Electrical Equipment	1,677	1.5	33
Booker Group PLC	Food and Drug Retailers	1,644	1.5	655
Wilmington Group PLC	Media	1,610	1.5	108
Croda International PLC	Chemicals	1,593	1.4	1,287
UK Mail Group PLC	Industrial Transportation	1,585	1.4	176
Mothercare PLC	General Retailers	1,507	1.4	529
Primary Health Properties PLC	Real Estate Investment Trusts	1,502	1.4	186
Education Development PLC	Support Services	1,462	1.3	78
Carclo PLC	Chemicals	1,450	1.3	89
Group NBT PLC	Software and Computer Services	1,437	1.3	79
SDL PLC	Software and Computer Services	1,427	1.3	377
VP Group PLC	Support Services	1,415	1.3	82
TR Property Investment Trust PLC Sigma	Real Estate	1,410	1.3	88
Holidaybreak PLC	Travel and Leisure	1,403	1.3	193
Fenner PLC	Industrial Engineering	1,384	1.2	372
Cineworld Group PLC	Travel and Leisure	1,348	1.2	265
Shaftesbury PLC	Real Estate Investment Trusts	1,346	1.2	873
Consort Medical PLC	Health Care Equipment and Services	1,291	1.2	103
Goals Soccer Centres PLC	Travel and Leisure	1,274	1.2	80
Salamander Energy PLC	Oil and Gas Producers	1,235	1.1	407
Fifty Largest Holdings		**93,655**	**85.0**	

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2010

Sector	% of portfolio	% of SmallCap
Oil and Gas Producers	4.8	1.4
Oil Equipment Services and Distribution	0.0	0.0
Alternative Energy	0.0	0.8
Oil and Gas Total	**4.8**	**2.2**
Chemicals	4.7	2.1
Mining	0.0	1.7
Basic Materials Total	**4.7**	**3.8**
Construction and Materials	3.1	4.6
Aerospace and Defence	4.1	1.4
General Industrials	0.0	1.3
Electronic and Electrical Equipment	8.9	1.5
Industrial Engineering	5.4	3.7
Industrial Transportation	5.4	4.0
Support Services	14.9	14.8
Industrials Total	**41.8**	**31.3**
Automobiles and Parts	0.0	0.0
Beverages	1.8	0.0
Food Producers	3.2	3.2
Household Goods	0.0	1.3
Leisure Goods	0.0	1.5
Personal Goods	0.0	0.0
Consumer Goods Total	**5.0**	**6.0**
Health Care Equipment and Services	3.2	3.2
Pharmaceuticals and Biotechnology	2.6	4.0
Health-care Total	**5.8**	**7.2**
Food and Drug Retailers	1.5	0.3
General Retailers	5.8	6.3
Media	1.5	4.3
Travel and Leisure	5.8	4.9
Consumer Services Total	**14.6**	**15.8**
Fixed Line Telecommunications	0.0	1.9
Telecommunications Total	**0.0**	**1.9**
Gas, Water and Multiutilities	0.0	0.0
Utilities	**0.0**	**0.0**
Non-life Insurance	1.0	2.6
Life Insurance	0.0	2.0
Real Estate and Investment Services	3.4	10.9
Real Estate Investment Trusts	2.6	3.4
General Financials	7.3	7.0
Equity Investment Instruments	1.3	0.0
Financials Total	**15.6**	**25.9**
Software and Computer Services	7.7	4.5
Technology, Hardware and Equipment	0.0	1.4
Technology Total	**7.7**	**5.9**
TOTAL	**100.0**	**100.0**

The investment portfolio comprises 67 listed UK equity holdings including 15 holdings totalling £22,311,000 (representing 20% of the portfolio) traded on the Alternative Investment Market ("AIM").

Board of Directors

MUSCIT has a highly experienced Board of Directors with extensive knowledge of investment management and investment trusts

David Gamble – Chairman
David Gamble was appointed a Director on 19 November 2004 and became Chairman of MUSCIT on 28 January 2005. David is also chairman of Hermes Property Unit Trust, a director of IBM Pension Trustees Limited, Barrie & Hibbert PLC, Vencap International PLC, Polar Capital Technology Trust PLC, Dunedin Enterprise Investment Trust PLC and a member of the investment committee of the BBC pension Trust. He retired as chief executive of British Airways Pension Investment Management in 2004.

Christopher Jones
Christopher Jones has over 30 years' investment experience and was appointed a Director on 9 July 1999. From 1985 until 2004 he was head of investments at Merchant Investors Assurance Company Limited. He is also a director of Schroder UK Mid and Smaller Cap Fund plc, Atlantis Japan Growth Fund Limited, Ecofin Water & Power Opportunities PLC, Montanaro European Smaller Companies PLC and Cayenne Trust PLC.

Michael Moule
Michael Moule formerly specialised in managing investment trusts for Henderson and Touche Remnant. Appointed a Director on 28 January 2005, he has extensive experience of UK and overseas equity markets having worked with investment trusts since 1967. He is also a director of The European Investment Trust PLC and Polar Capital Technology Trust PLC.

Laurence Petar – Resigned 16 June 2010
Laurence Petar has been involved in the investment trust sector for almost 40 years and was appointed a Director on 23 May 2003. He was a partner at the stockbroking firm of Gilbert Elliott & Co until 1986. He then spent ten years as an executive director in charge of the investment trust department at UBS Limited and most recently he was a consultant to HSBC Securities. He is currently a director of Jupiter Asset Management Limited.

Roger Cuming – Appointed 5 June 2009
Roger Cuming has been in the investment industry for over 35 years. He is Head of Investments for Reliance Mutual Insurance Society Limited. He is a significant investor in closed and open-ended investments of all types. He is also a director of Close Enhanced Commodities Fund Limited.

Kathryn Matthews – Appointed 1 April 2010
Kathryn Matthews has worked in the investment management industry since 1981. Most recently she was the chief investment officer of Asia Pacific (ex Japan) for Fidelity International. Prior to that she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a non-executive director of Rathbone Brothers plc, Hermes Fund Managers Limited and of Fidelity Asian Values Plc.

Advisers

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Montanaro UK Smaller Companies Investment Trust PLC
Registered in England and Wales No. 3004101

An investment company as defined under Section 833 of the Companies Act 2006.

Directors' Report

The Directors present their Annual Report and financial statements for the year ended 31 March 2010.

Business Review

INTRODUCTION

The purpose of the Business Review is to provide an overview of the business of the Company by:

- Analysing development and performance using appropriate key performance indicators ("KPIs").
- Outlining the principal risks and uncertainties affecting the Company.
- Describing how the Company manages these risks.
- Explaining the future business plans of the Company.
- Setting out the Company's environmental, social and ethical policy as disclosed on page 16.
- Providing information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company.
- Outlining the main trends and factors likely to affect the future development, performance and position of the Company's business.

DEVELOPMENT, PERFORMANCE AND POSITION OF MUSCIT REVIEW OF THE BUSINESS OF MUSCIT

A description of MUSCIT's activities and a review of the development and performance of the business during the year is given in the Chairman's Statement on page 2 and in the portfolio management section of the Manager's Report on page 5.

MUSCIT is a closed-end investment trust listed on the London Stock Exchange with registration number 3004101. Its affairs are managed so that it receives approval from HM Revenue & Customs as an investment trust under s842 of the Income & Corporation Taxes Act 1988 ("s842"). One of the criteria for compliance is that at least 85% of MUSCIT's eligible investment income arising in an accounting period is distributed to shareholders.

The Board considers that MUSCIT will continue to qualify as an investment trust, which confers certain benefits such as exemption from the payment of capital gains taxes arising on the sale of investments. MUSCIT has most recently received approval under s842 for the year ended 31 March 2009 and an application will be made to HM Revenue & Customs for MUSCIT's status as an investment trust in financial year 2009/10 to be confirmed. Further details on the operation of investment trusts can be obtained from the Association of Investment Companies on their website at www.theaic.co.uk.

MUSCIT is also an investment company as defined in s833 of the Companies Act 2006. The current portfolio of MUSCIT is such that its shares are eligible for inclusion in an ISA and PEPs up to the maximum annual subscription limit and the Directors expect this eligibility to be maintained.

MUSCIT's investment objective is capital appreciation (rather than income) achieved by investing in quoted companies listed on the London Stock Exchange or traded on the Alternative Investment Market ("AIM"). No unquoted investments are permitted. The benchmark is the FTSE SmallCap (excluding investment companies) Index.

At the time of initial investment, a potential investee company must be profitable and smaller than the largest constituent of the HGSC Index which represents the smallest 10% of the UK Stock Market by value. At the start of 2010, this was any company below £1.2 billion in size.

The Manager of MUSCIT is Montanaro Asset Management Limited ("Montanaro"), a highly experienced specialist in UK and European quoted small companies established in 1991. Montanaro have one of the largest teams in the UK researching and investing exclusively in quoted small companies.

They closely monitor all investments within the portfolio and identify potential new investments. Although sector weightings of the benchmark are monitored, the portfolio is a result of bottom up stock picking and may differ markedly from the index. Tracking error may be relatively high reflecting a focus on research driven stock selection. Montanaro currently manage over £500 million, mainly on behalf of leading financial institutions.

There are currently 33,475,958 Ordinary 10p shares in issue (2009: 33,475,958) of which none are held in Treasury (2009: nil). Holders of Ordinary shares have unrestricted voting rights at all general meetings of the Company.

DESCRIPTION OF PRINCIPAL RISKS ASSOCIATED WITH MUSCIT

The Board carefully considers the principal risks for MUSCIT and seeks to manage these risks through continual and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and shareholders.

The Board applies the principles detailed in the recommendations of the AIC Code as described elsewhere in the Directors' Report. Details of MUSCIT's internal controls may be found under Corporate Governance on page 17.

Mitigation of the principal risks is sought and achieved in many ways as shown in italics below:

Investment Manager: Montanaro has been the Manager of MUSCIT since its launch in 1995. The success of MUSCIT and its strong performance is largely attributable to Montanaro. Should the current Manager not be in a position to continue its management of the Company, performance may be impacted.

The Board holds Board meetings which are attended by the Manager. Montanaro have one of the largest specialist teams in the UK. Succession planning within Montanaro and recruitment of personnel are closely monitored.

Investment & Strategy: MUSCIT may underperform its benchmark as a result of poor stock selection or sector allocation or as a result of being geared in a falling market.

The Manager meets regularly with the Board to discuss portfolio performance and strategy, and provides the Board and shareholders with monthly reports. The portfolio is well diversified thereby spreading investment risk and reducing stock specific *risk. The Board receives and reviews monthly a report of all transactions and, through the forum of its Management Engagement Committee, formally reviews the performance of the Manager annually.*

Gearing: one of the benefits of closed ended investment trusts is the ability to use borrowings which can enhance returns in a rising stock market. However, gearing exacerbates movements in the net asset value both positively and negatively and will exaggerate declines in net asset value when prices of quoted UK small companies are falling.

The Board monitors and discusses with the Manager the appropriate level of gearing of MUSCIT at each Board meeting.

Portfolio Liquidity: as with all small company investment trusts, there are times when the liquidity of the underlying portfolio is poor, such as when small companies are out of favour or during periods of adverse economic conditions. The Manager focuses on smaller companies at the lower end where the opportunities may be more attractive but this can increase overall underlying illiquidity. This may result in the Manager being unable to buy or sell individual holdings within the portfolio. In addition, this may impact the discount of MUSCIT's share price to the net asset value of the portfolio.

One of the benefits of investment trusts is that generally the Manager is not forced to buy or sell individual holdings at inopportune times. The Manager constantly reviews the underlying liquidity of the portfolio, which is well-diversified. Particular attention is paid to the AIM holdings, with the Manager providing the Board with liquidity reports at every meeting. Montanaro deal with a wide range of brokers to enhance their ability to execute and minimise liquidity risk.

Liquidity of MUSCIT Shares: as with many small company investment trusts, there are times when the liquidity of the shares of MUSCIT is low. In the case of MUSCIT, many of the shareholders are large financial institutions with a long-term investment horizon. Unlike other trusts where private individuals form a larger part of the share register, this may result in less shares being traded in MUSCIT on a daily basis and make it difficult at times for investors to buy or sell shares of MUSCIT.

The Manager is encouraged by the Board to market the strong investment story of MUSCIT to private client wealth managers and other potential new investors. The goal is to widen the shareholder base to enhance liquidity. In addition, the ability to buy back shares to be held in Treasury for subsequent re-issue enhances the liquidity of MUSCIT shares.

Discount Volatility: as with all small company investment trusts, discounts can fluctuate significantly both in absolute terms and relative to their peer group.

The Board actively monitors and seeks to manage the discount of MUSCIT and is responsible for share buy backs for cancellation or issuance from Treasury. Share buy backs may help to reduce the discount.

During the year and up to the date of this report, MUSCIT has not used the authority granted at the Annual General Meeting held in 2009 to make market purchases of up to 5,018,046 Ordinary shares and as at the date of this report has the authority to purchase 5,018,046 Ordinary shares. No Ordinary shares are currently held in Treasury. No shares were purchased during the year.

The Board encourages the Manager to market MUSCIT to new investors to increase demand for shares of MUSCIT, which may help to increase liquidity and reduce the discount.

Regulatory: a breach of s842 might lead to MUSCIT being subject to capital gains tax; a breach of rules of the London Stock Exchange might result in censure by the FSA and/or suspension of MUSCIT's listing on the London Stock Exchange.

The Board has agreed a service level agreement with the Administrator which includes active and regular review of compliance with s842, and FSA and London Stock Exchange Rules. This is reviewed at each Board meeting.

Operational: if the Administrator's operational procedures proved deficient and its core accounting systems failed, accounting errors might occur resulting in inaccurate net asset valuations and performance data and possibly a qualified audit report and/or loss of s842 status.

The Board monitors operational issues monthly and reviews them in detail at each Board meeting.

Financial: inappropriate accounting policies or failure to comply with current or new Accounting Standards might lead to a breach of regulations and/or loss of s842 status.

The Board monitors financial issues monthly and reviews them in detail at each Board meeting.

Banking: a breach of MUSCIT's loan covenants might lead to funding being summarily withdrawn and investment holdings potentially being sold at a time of poor liquidity.

The main financial covenants to which the Company is subject in respect of the ING N.V. revolving credit facility require it to ensure that total borrowings will not exceed 30% of the adjusted Net Asset Value at any time and that the adjusted Net Asset Value does not fall below £39,000,000 at any time.

The Board monitors compliance with banking covenants monthly and reviews them with the Administrator and Manager.

Reputational: inadequate or deficient controls of the Administrator or Manager or other third-party providers might result in breaches of regulations and damage the trust and confidence of shareholders in MUSCIT, leading to a widening of the discount.

The Board continually monitors and reviews issues that may impact the standing of MUSCIT.

Reputational: Failure to keep current and potential investors informed of the Trust's performance and development could result in less shares being traded in MUSCIT on a daily basis and also lower investor confidence.

The Board and Manager maintain clear and frequent communication with shareholders and potential investors. The Board and Manager are happy to meet with shareholders.

Directors' Report continued

Company Viability: Through falling NAV, or a reduction in the size of the Company through purchases of its own shares, the size of the Company could make the continuing existence of the Company unviable in the opinion of investors.

The Board actively monitors and seeks to manage the discount of MUSCIT and is responsible for share buy backs for cancellation or holding in Treasury. The resultant size of the Company is an important consideration of the decision to undertake buy backs.

A description of MUSCIT's system for reviewing its risk-environment is shown in the Directors' Report on page 17.

ANALYSIS OF PERFORMANCE USING KEY PERFORMANCE INDICATORS

Results and Dividends: the results for the year are as set out in the Income Statement on page 22. On 18 December 2009 the Company paid an interim dividend of 3p per Ordinary share. The Directors recommend that a final dividend of 3.20p per Ordinary share, amounting to £1,071,000 (2009: £2,293,000), be paid on 13 August 2010 to shareholders on the share register at the close of business on 2 July 2010. The total dividends paid to shareholders in respect of the year ended 31 March 2010 will be 6.20p per Ordinary Share (2009 6.85p including the non recurring 1.99p paid in respect of the receipt of VAT on past management fees.)

Net Asset Value: the NAV per Ordinary share, including revenue reserves, at 31 March 2010 was 302.59p (2009: 195.94p).

The Board and the Manager monitor the following Key Performance Indicators:

- the NAV over one, three and five years and since launch relative to the benchmark and peer group;
- the high, low and closing level of discount; and
- the Total Expense Ratio which was 1.5% in the year to 31 March 2010.

Future Developments and Events Subsequent to the Year End

Miss Kathryn Matthews was appointed as a Director of the Company with effect from 1 April 2010.

Section 992 Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006 and DTR 7.2.6 of the FSA Disclosure and Transparency Rules.

- The Company's capital structure and voting rights are disclosed on page 12.
- Details of the substantial shareholders in the Company are disclosed on page 18.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are disclosed on page 16.
- Amendment of the Company's Articles of Association and the giving of powers to issue or buy back the Company's shares require a special resolution to be passed by shareholders and the Board's current powers to buy back shares are stated on page 33 and proposals for their renewal are disclosed on page 18.
- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Management Agreement

The Company's investments are managed by Montanaro Asset Management Limited under a management agreement dated 30 June 1998, amended on 10 June 1999, 31 July 2001 and 2 November 2009. The management fee comprises two components: a fixed fee of 1/12 of 1% of the gross assets of MUSCIT, payable monthly in arrears, and a performance fee of 0.1% of the gross assets of MUSCIT for each 1% outperformance (or part thereof) of MUSCIT's NAV against the SmallCap over the financial year, subject to a maximum of 0.5% of the gross assets calculated at the end of the financial year. A performance fee is only payable in respect of any financial year of MUSCIT in the event that the NAV of MUSCIT as at the end of that financial year (as derived from the audited financial statements of MUSCIT): (i) is not less than the NAV of MUSCIT as at the end of the immediately preceding financial year in which the Manager was entitled to a performance fee; and (ii) has outperformed MUSCIT's benchmark during the year by at least 2%. (In such event, the performance fee would be payable in respect of each 1% (or part thereof) outperformance of the benchmark).

In the year to 31 March 2007, being the last financial year in which the Manager was entitled to a performance fee, the Company achieved a new "high on high" NAV of 366.31p. No performance fee is payable in respect of the year ended 31 March 2010 (2009: nil).

On termination of the management agreement by MUSCIT, the Manager is entitled to a termination fee of 1% of gross assets of MUSCIT as at close of business on the last day of the calendar month immediately preceding the effective date of termination of the agreement.

The Board keeps under review the performance of the Manager. In the opinion of the Directors, the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole. Among the reasons for this view are the satisfactory investment performance of MUSCIT relative to that of the markets in which MUSCIT invests and the depth and experience of the research capability of Montanaro.

Directors

The Directors in office during the year or as at the date of this report, along with their biographies, are shown on page 10.

Directors' Beneficial and Family Interests

The interests of the Directors and their families in the voting rights of MUSCIT are set out below:

	As at 31 March 2010 No. of shares	As at 31 March 2009 No. of shares
David Gamble	**10,000**	10,000
Roger Cuming (appointed 5 June 2009)	**–**	–
Antony Hardy (retired 31 July 2009)	**–**	10,000
Christopher Jones	**10,000**	10,000
Kathryn Matthews (appointed 1 April 2010)	**–**	–
Michael Moule	**10,000**	10,000
Laurence Petar (resigned 16 June 2010)	**10,000**	10,000

There have been no changes to the above holdings between 31 March 2010 and the date of this Annual Report. Kathryn Matthews holds no shares in the Company. None of the Directors nor any persons connected with them had a material interest in any of MUSCIT's transactions, arrangements or agreements during the year.

Corporate Governance

COMPLIANCE WITH THE PROVISIONS OF THE AIC CODE OF CORPORATE GOVERNANCE

The Board of MUSCIT has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to MUSCIT.

The Board considers that reporting under the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and in the Preamble to the Combined Code, the Board considers that these provisions are not relevant to the position of MUSCIT, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC's website, www.theaic.co.uk. A copy of the Combined Code on Corporate Governance can be obtained at www.frc.org.uk.

The AIC Code recommends that a full portfolio listing is made available to shareholders at least once a year, and where it is not contained in the Annual Report, a reference should be given explaining where it can be found. The Company was not compliant as such disclosures were not contained in the Annual Report for the year to 31 March 2009.

The Company discloses the top 50 holdings within its portfolio, currently representing 85.0% of the portfolio. It is considered that the remaining stocks are largely holdings in transition and not therefore strictly representative of the portfolio.

Board Responsibilities

During the year and at the year end the Board comprised of five Non-executive Directors. On 1 April 2010 Kathryn Matthews was appointed as a Non-executive Director of the Company and the Board has consisted of six Directors as of that date. The Board has considered the independent status of each Director under the AIC Guide and has determined that all are independent other than Christopher Jones. While Mr Jones is not deemed to be independent under the AIC Code or Listing Rules, due to his being a director of more than one investment company managed by the Manager, the Board believes that his extensive knowledge of the interests of shareholders of investment trusts enables him to effectively perform this role. Both Mr Gamble and Mr Moule are non-executive directors of Polar Capital Technology Trust. Their fellow Directors do not consider this to affect their ability to act independently and each Director is deemed independent in outlook and judgement. The Chairman is free from any conflicts of interest and does not have any other significant commitments than those disclosed in his biography on page 10.

The Board has reviewed the fact that Mr Cuming is a senior member of a company that has a shareholding in the Trust. The Board are satisfied that internal controls make sure that voting and control of this shareholding is not influenced by Mr Cuming. The Board also believes that the contribution of Mr Cuming is entirely aligned to the overall success of the Company and that he acts independently in his role as Director of the Company.

The Board has formalised the arrangements under which Directors, in the furtherance of their duties, may take independent professional advice. The Company also maintains Directors' and Officers' liability insurance.

The Company holds at least four Board meetings each year at which the Directors review MUSCIT's investments and all other important issues to ensure control is maintained over MUSCIT's affairs. During the year ended 31 March 2010, five Board meetings were held, one of which was a full-day session devoted entirely to reviewing strategic matters.

None of the Directors has a contract of service with MUSCIT nor has there been any contract or arrangement between MUSCIT and any Director at any time during the year. The Company has neither executive directors nor employees. However, the Board has engaged external companies to undertake the investment management, administrative and custodial activities of MUSCIT. Clear, documented contractual arrangements are in place between MUSCIT and these firms that define the areas where the Board has delegated functions to them. Further details of the investment management agreement are given on page 14.

A schedule of matters specifically reserved to the Board for its decision has been adopted. These reserved matters include the approval of annual and half-yearly financial statements, the

Directors' Report continued

Attendance

	Board		Audit Committee		Remuneration Committee		Management Engagement Committee		Nomination Committee	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
David Gamble	5	5	2	2	2	2	1	1	4	4
Roger Cuming*	4	4	1	1	1	1	0	0	3	3
Antony Hardy**	2	2	1	1	2	1	1	1	1	1
Christopher Jones	5	4	n/a	n/a	2	2	1	1	4	4
Michael Moule	5	5	2	2	2	2	1	1	4	4
Laurence Petar	5	5	2	2	2	2	1	1	4	4

* appointed on 5 June 2009
** retired 31 July 2009

approval of dividends, the approval of press releases and circulars, Board appointments and removals and the membership of Committees. Decisions regarding gearing and the capital structure of MUSCIT (including share buy backs and Treasury share transactions) are also taken by the Board, while the day-to-day investment of the portfolio is delegated to the Manager.

The AIC Code recommends the appointment of a Senior Independent Director, Christopher Jones is currently the Senior Director of MUSCIT. As previously announced, Mr Christopher Jones will not be seeking re-election at the Company's 2010 Annual General Meeting, following his retirement, Mr Roger Cuming will be appointed as the Senior Independent Director.

Elections and Re-elections at the Annual General Meeting

In accordance with the Company's current Articles, one-third of the Directors subject to retirement by rotation retire at each AGM. In so far as the number of Directors retiring is less than one-third, those Directors who have been longest in office shall retire. In accordance with the Company's Articles, the Combined Code and AIC Code, Directors will be subject to re-election by shareholders at intervals of no more than three years.

The Board will consider the continuing independence of any Director who has served on the Board for nine years or more, giving consideration to:

(i) Employee relationships.

(ii) Material business relationships.

(iii) Family ties.

(iv) Cross-directorships.

(v) Shareholdings.

The tenure of the Chairman will be subject to the same restrictions. A Chairman stepping down from that role will be capable of continuing to serve as a Director.

In accordance with the Articles, Messrs Gamble and Moule will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

David Gamble is Chairman of the Company and has over 35 years experience within the asset management industry and currently performs a number of non-executive and advisory roles.

Michael Moule has extensive experience of both UK and overseas equity markets and the investment trust sector.

Their fellow Directors strongly recommend the re-election of Messrs Gamble and Moule because of their strong contributions to the Trust. David Gamble as Chairman has demonstrated good leadership skills to ensure the efficient board operation and maintain the excellent relationships with the Manager and other service providers. Michael Moule as chairman of the Audit Committee and Director is recommended on the basis of his expertise and experience in investment matters and commitment to the Company.

In accordance with the AIC Code, Kathryn Matthews will offer herself for appointment, it being the first Annual General Meeting since her appointment to the Board.

Her fellow Directors strongly recommend the election of Kathryn Matthews whose experience as a senior investment manager will make a worthy new addition to the Board.

As noted in the Chairman's Statement Christopher Jones will not be seeking re-election.

Performance Evaluation

The Directors conduct an annual review of Board performance and effectiveness. This process is comprised of three elements:

1. a factual report of Board Committee procedures from MUSCIT's Secretary;

2. an assessment of the Board and a self-evaluation by each Director against specific agreed criteria; and

3. an assessment of the Chairman by each Director against specific agreed criteria.

Voting Policy and Socially Responsible Investment

The Company has given discretionary voting powers to the Manager, Montanaro. AIC Code Principal 16 recommends that the Board should agree a policy regarding voting rights exercised by Montanaro. However, the Board has agreed that there is no need to set a written down policy with Montanaro concerning key operational issues as the Board and Montanaro already have a clear understanding of their respective responsibilities. The Board encourages the Manager to give due consideration to environmental, social and governance matters whilst recognising the overall investment policy and objectives of the Company. Montanaro regularly reports to the Board on how the Company's voting powers have been exercised. Montanaro votes against resolutions it considers may damage shareholders' rights or economic interests. Montanaro gives due weight to what they consider to be socially responsible investments, when making investment decisions, but its overriding objective is to produce good investment returns for shareholders.

Board Committees

The Audit Committee comprises the independent Directors, David Gamble, Roger Cuming, Michael Moule, Kathryn Matthews and until his retirement Laurence Petar which the Board considers to be appropriate in order to maximise the collective knowledge of the Committee. Following the retirement of Antony Hardy on 31 July 2009, Michael Moule was appointed as Chairman of the Audit Committee of the Company. The Committee meets at least twice a year in conjunction with the annual and half-yearly results of MUSCIT. It provides a forum through which MUSCIT's Auditor reports to the Board; reviews the terms of appointment, remuneration, independence, objectivity and effectiveness of the Auditor; reviews the annual and half-yearly reports of MUSCIT and monitors the internal controls of MUSCIT and its service providers. The Committee has adopted formal written terms of reference.

The Remuneration Committee comprises all members of the Board, with Mr Gamble acting as its Chairman, which the Board considers to be appropriate in order to maximise the collective knowledge of the Committee. As previously announced Mr Roger Cuming was appointed Chairman of the Committee post year-end. The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board. The Committee has adopted written terms of reference.

The Board also uses a number of other committees, detailed below on which all Board members sit. Written terms of reference, which may be obtained from the Company Secretary on request, have been adopted in respect of each committee, all of which were chaired by the Chairman of MUSCIT with Mr Cuming appointed post year-end.

A Management Engagement Committee meets at least once a year for the purpose of reviewing the terms of appointment and performance of the Manager and other service providers. During the year this Committee held one meeting.

The Nomination Committee meets as required for the purpose of considering appointments to, and removals from, the Board. Appointments to the Board are made according to a person's existing knowledge and expertise. The Board is committed to a policy of succession planning. This Committee held four meetings during the year. During the year the Committee met to consider the recruitment of a new Director to the Board. Trust Associates an independent outside non-executive director search agency was engaged by the Company to identify suitable candidates for consideration by the Committee. Following interviews with the Committee it was recommended to the Board, who followed the recommendation, that Kathryn Matthews be appointed to the Board as a non executive Director with effect from 1 April 2010.

Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining MUSCIT's system of internal control and for maintaining its effectiveness. Internal control systems are designed to meet the particular needs of MUSCIT and the risks to which it is exposed and by their very nature provide reasonable but not absolute assurance against misstatement or loss. The Directors have reviewed the effectiveness of the system of internal controls, including financial, operational and compliance controls, and risk management. The Board has taken actions to remedy any significant failings or weaknesses identified. The key procedures, which have been established to provide effective internal control, are as follows:

- Throughout the year under review and up to the date of this Annual Report, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by MUSCIT, which accords with guidance in the document entitled "Internal Control: Revised Guidance for Directors on the Combined Code" and is reviewed on a regular basis by the Board. The process involves reports from MUSCIT's Company Secretary and Manager as described below. In addition, the Board receives internal control statements from all the third parties to which it delegates functions.
- In accordance with guidance issued to directors of listed companies in October 2005, the Board has carried out a review of the system of internal controls as it has operated since 1 April 2009.
- Investment management is provided by the Manager, which is regulated by the Financial Services Authority. The Board is responsible for setting the overall investment policy and monitors the activity of the Manager at regular Board meetings. The Manager provides reports at these meetings, which cover investment performance and compliance issues.
- Capita Sinclair Henderson Limited is responsible for the provision of administration and company secretarial duties. It also reports to the Board on risk control issues for MUSCIT as a whole.
- Custody of assets is undertaken by independent third parties.
- The duties of investment management, accounting and the custody of assets are segregated.
- The procedures of the individual parties are designed to complement one another.
- The Board of MUSCIT clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved, and the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.
- The Board reviews financial information produced by MUSCIT's Company Secretary in detail on a monthly basis.

Dialogue with Shareholders

The Directors are always available to enter into dialogue with shareholders, who should send any communications via the Company Secretary at the Company's Registered Office and have a policy of regularly inviting major shareholders to meet with the Board.

All shareholders have the opportunity to attend and vote at the Annual General Meeting during which the Board and Manager are available to discuss issues affecting MUSCIT.

Directors' Report continued

Substantial Shareholdings

As at the date of this report, MUSCIT has been informed of the following notifiable interests in MUSCIT's voting rights:

Beneficial owner	Ordinary shares	% of voting rights
East Riding of Yorkshire Council	3,000,000	8.96
Derbyshire County Council	2,925,000	8.74
Royal London Asset Management Limited	2,350,000	7.02
Newton Investment Management Limited	2,049,217	6.12
Reliance Mutual Insurance Society Limited	1,885,000	5.63
Jupiter Asset Management Limited	1,875,000	5.60
Legal & General Group PLC	1,454,321	4.34
AEGON UK	1,436,374	4.29
J O Hambro Investment Management Limited	1,359,600	4.06

Going Concern

At the 2009 Annual General Meeting of the Company an Ordinary Resolution was passed releasing the Directors from the obligation to convene a General Meeting during 2010 for the purpose of proposing for the Company to be wound-up on a voluntary basis as stated in the Company's Articles of Association.

The Directors' after due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, are of the opinion that it is appropriate to presume that the Company will continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis, consistent with previous years.

Payment of Suppliers

It is MUSCIT's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will take place and it is MUSCIT's policy to abide by those terms. The Company endeavours to pay suppliers' invoices by the end of the month in which they are received. No invoices received by MUSCIT prior to the Balance Sheet date (or 31 March 2009) were unpaid and, therefore, there were no trade creditors at either year end.

Auditor

KPMG Audit Plc is willing to remain in office and Resolution 7 for its re-appointment will be proposed at the forthcoming Annual General Meeting.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Special Business at the Annual General Meeting

A resolution to renew MUSCIT's authority to purchase (either for cancellation or for placing into Treasury) up to 14.99% of MUSCIT's Ordinary shares in circulation for a further year will be put to shareholders as Resolution 8 at the Annual General Meeting. Any shares held in Treasury for a period of 12 months will be cancelled. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Resolution number 9, if passed, will give the Directors the general authority (pursuant to paragraph (A) of the Resolution) to allot Ordinary shares (including issues out of Treasury) up to an aggregate nominal amount of one-third of MUSCIT's issued Ordinary shares. In addition in accordance with the guidance from the Association of British Insurers on the expectations of institutional investors, upon the passing of Resolution 9 the Directors will have the authority (pursuant to paragraph (B) of the Resolution) to allot Ordinary Shares up to an additional third of the current issued share capital but only for the purposes of a rights issue to existing shareholders. The authority will lapse at the next Annual General Meeting of the Company after the passing of this Resolution. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Resolution number 10, subject to the passing of Resolution 9, will give the Directors the general authority to allot Ordinary shares (including issues out of Treasury) for cash, up to an aggregate nominal amount of 10% of the issued Ordinary shares and at a price not less than the net asset value per share, without having to offer such shares to existing shareholders in proportion to their existing holdings.

Resolution number 11, subject to the passing of Resolution number 10, will give the Directors the general authority to allot shares held in Treasury at a discount to net asset value, up to the same aggregate nominal amount of 10% of the issued Ordinary shares. Any shares placed into Treasury under this authority will only be re-issued at an absolute profit and at a lower discount than when they were originally purchased.

Resolution 12 (a Special Resolution), if passed, will adopt new Articles of Association. The changes in the proposed new Articles primarily reflect the implementation of the Directive and the coming into force of the remaining provisions of the Companies Act 2006. The principal differences from the existing Articles are set out in the Appendix on page 40. The proposed new Articles of Association are available for inspection as noted on page 46.

Any decisions regarding placing shares into Treasury, or issuing shares from Treasury, will be taken by the Directors.

Full details of these Resolutions are provided in the Notice of Annual General Meeting.

By order of the Board

CAPITA SINCLAIR HENDERSON LIMITED
Company Secretary
21 June 2010

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of the Directors' Remuneration Report Regulations 2002, in respect of the year ended 31 March 2010. An Ordinary Resolution to receive this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires your Company's Auditor to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in its report.

Remuneration Committee

The Company currently has five Non-executive Directors, all of whom sit on the Remuneration Committee. Kathryn Matthews did not serve on the Remuneration Committee during the year ended 31 March 2010. As previously announced Mr Cuming was appointed Chairman of the Committee after the year-end.

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other companies of a similar size and capital structure (Ordinary shares and bank borrowings) and that have a similar investment objective (capital growth). It is intended that this policy will continue for the year ending 31 March 2011.

The fees of the Directors are determined within the limits set out in the Company's Articles of Association. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits as they do not feel it is appropriate for the Directors of the Company as at this time.

With effect from 1 April 2010 the remuneration of the Chairman was increased from £23,000 to £26,000 per annum and that of the Senior Independent Director and the chairman of the Audit Committee from £16,000 to £19,000. Remuneration of the other Board members was increased from £15,000 to £17,000. This was the first rise in Board remuneration since 2006 and follows a review of fees undertaken in conjunction with Trust Associates during the process to select and appoint a new member of the Board.

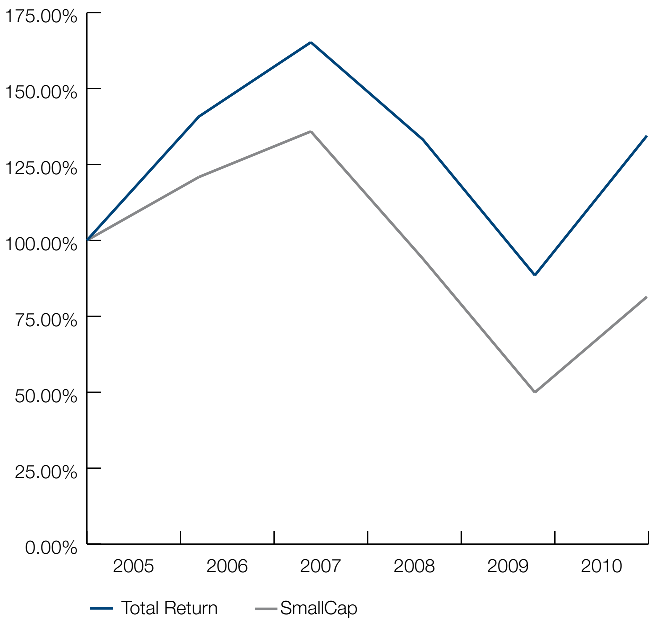
Directors' Service Contracts

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after his appointment, and at least every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

Your Company's Performance

The following graph compares the total return (assuming all dividends are reinvested) over the past five years to Ordinary shareholders to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE SmallCap (ex.I.Cs) is calculated. The index was chosen for comparison purposes as it is the benchmark used for investment performance measurement purposes.

Total Return vs SmallCap (rebased from March 2005)



Directors' Emoluments for the Year (Audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Year to 31 March 2010 £	Year to 31 March 2009 £
David Gamble	**23,000**	23,000
Roger Cuming – appointed 5 June 2009	**12,333**	–
Antony Hardy – resigned 31 July 2009	**5,333**	16,000
Christopher Jones	**16,000**	16,000
Michael Moule	**15,667**	15,000
Laurence Petar	**15,000**	15,000

No sums are paid to any third parties in respect of Directors' services.

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 21 June 2010.

DAVID GAMBLE
Chairman

Statement of Directors' Responsibilities
in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DAVID GAMBLE
Chairman
21 June 2010

Independent Auditor's Report

to the Members of Montanaro UK Smaller Companies Investment Trust PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MONTANARO UK SMALLER COMPANIES INVESTMENT TRUST PLC

We have audited the financial statements of Montanaro UK Smaller Companies Investment Trust PLC for the year ended 31 March 2010 set out on pages 22 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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

As explained more fully in the Statement of Directors' Responsibilities Statement set out on page 20, 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 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

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 March 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 15 to 18 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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 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, or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 18, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 15 to 18 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Salim Tharani: (Senior Statutory Auditor)

for and on behalf of

KPMG Audit Plc Statutory Auditor
Chartered Accountants
Registered Auditor
100 Temple Street
Bristol
BS1 6AG
United Kingdom
21 June 2010

Income Statement
for the year to 31 March 2010

Gains/(losses) on investments designated as fair value through profit or loss
Dividends and interest
Management fee*
Management performance fee*
Other income
Other expenses
Net return before finance costs and taxation
Interest payable and similar charges
Net return before taxation
Taxation
Net return after taxation
Return per Ordinary share

* Year to 31 March 2009 net of VAT refund.

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 Statement of Total Recognised Gains and Losses has been prepared as all such gains and losses are shown in the Income Statement.

No operations were acquired or discontinued in the year.

The notes on pages 28 to 36 form part of these financial statements.

Notes	**Revenue £000**	**Year to 31 March 2010 Capital £000**	**Total £000**	Revenue £000	Year to 31 March 2009 Capital £000	Total £000
10	**–**	**37,277**	**37,277**	–	(37,641)	(37,641)
2	**3,206**	**–**	**3,206**	2,855	–	2,855
3	**(486)**	**(487)**	**(973)**	26	(61)	(35)
3	**–**	**–**	**–**	–	247	247
2	**3**	**–**	**3**	184	–	184
4	**(341)**	**–**	**(341)**	(334)	–	(334)
	2,382	**36,790**	**39,172**	2,731	(37,455)	(34,724)
6	**(86)**	**(86)**	**(172)**	(266)	(266)	(532)
	2,296	**36,704**	**39,000**	2,465	(37,721)	(35,256)
7	**–**	**–**	**–**	–	–	–
	2,296	**36,704**	**39,000**	2,465	(37,721)	(35,256)
9	**6.86p**	**109.64p**	**116.50p**	7.36p	(112.54p)	(105.18p)

Reconciliation of Movements in Shareholders' Funds

for the year to 31 March 2010

Year to 31 March 2010
As at 31 March 2009
Fair value movement of investments
Costs allocated to capital
Dividends paid in the year
Net revenue for the year
As at 31 March 2010

Year to 31 March 2009
As at 31 March 2008
Fair value movement of investments
Costs allocated to capital
Dividends paid in the year
Shares purchased for cancellation
Treasury shares cancelled
Net revenue for the year
As at 31 March 2009

The notes on pages 28 to 36 form part of these financial statements.

Notes	**Called-up share capital £000**	**Share premium account £000**	**Capital redemption reserve £000**	**Special reserve £000**	**Capital reserve £000**	**Revenue reserve £000**	**Own shares held in Treasury £000**	**Total equity shareholders' funds £000**
	3,348	**19,307**	**1,362**	**4,642**	**33,448**	**3,485**	**–**	**65,592**
10	**–**	**–**	**–**	**–**	**37,277**	**–**	**–**	**37,277**
	–	**–**	**–**	**–**	**(573)**	**–**	**–**	**(573)**
8	**–**	**–**	**–**	**–**	**–**	**(3,297)**	**–**	**(3,297)**
	–	**–**	**–**	**–**	**–**	**2,296**	**–**	**2,296**
	3,348	**19,307**	**1,362**	**4,642**	**70,152**	**2,484**	**–**	**101,295**

Notes	Called-up share capital £000	Share premium account £000	Capital redemption reserve £000	Special reserve £000	Capital reserve £000	Revenue reserve £000	Own shares held in Treasury £000	Total equity shareholders' funds £000
	3,545	19,307	1,165	9,451	71,169	2,247	(4,501)	102,383
10	–	–	–	–	(37,641)	–	–	(37,641)
	–	–	–	–	(80)	–	–	(80)
8	–	–	–	–	–	(1,227)	–	(1,227)
	(14)	–	14	(308)	–	–	–	(308)
	(183)	–	183	(4,501)	–	–	4,501	–
	–	–	–	–	–	2,465	–	2,465
	3,348	19,307	1,362	4,642	33,448	3,485	–	65,592

Balance Sheet
as at 31 March 2010

	Notes	31 March 2010 £000	31 March 2010 £000	31 March 2009 £000	31 March 2009 £000
Fixed assets					
Investments designated at fair value through profit or loss	10		**110,160**		64,207
Current assets					
Debtors	12	**341**		344	
Cash at bank	20	**2,196**		6,167	
			2,537		6,511
Creditors: amounts falling due within one year					
Other creditors	13	**(1,402)**		(126)	
Revolving credit facility	14	**(10,000)**		(5,000)	
			(11,402)		(5,126)
Net current (liabilities)/assets			**(8,865)**		1,385
Total assets less current liabilities			**101,295**		65,592
Net assets			**101,295**		65,592
Share capital and reserves					
Called-up share capital	15		**3,348**		3,348
Share premium account			**19,307**		19,307
Capital redemption reserve			**1,362**		1,362
Special reserve			**4,642**		4,642
Capital reserve			**70,152**		33,448
Revenue reserve			**2,484**		3,485
Own shares held in Treasury			**–**		–
Total equity shareholders' funds			**101,295**		65,592
Net asset value per Ordinary share	18		**302.59p**		195.94p

These financial statements were approved by the Board of Directors on 21 June 2010.

DAVID GAMBLE **MICHAEL MOULE**

Company Registered Number: 3004101

The notes on pages 28 to 36 form part of these financial statements.

Statement of Cash Flows
for the year to 31 March 2010

	Notes	Year to 31 March 2010 £000	Year to 31 March 2010 £000	Year to 31 March 2009 £000	Year to 31 March 2009 £000
Operating activities					
Investment income received		**3,136**		2,652	
Deposit interest received		**7**		313	
Management fees paid		**(939)**		(960)	
Company secretarial fees paid		**(80)**		(79)	
VAT and interest reclaimed on investment management fees	2/3	**–**		1,313	
Other cash expenses		**(213)**		(257)	
Net cash inflow from operating activities	19		**1,911**		2,982
Servicing of finance					
Interest and similar charges paid		**(125)**		(686)	
Net cash outflow from servicing of finance			**(125)**		(686)
Capital expenditure and financial investment					
Purchases of investments		**(47,066)**		(14,400)	
Sales of investments		**39,606**		18,563	
Net cash (outflow)/inflow from investing activities			**(7,460)**		4,163
Equity dividends paid			**(3,297)**		(1,227)
Net cash (outflow)/inflow before financing			**(8,971)**		5,232
Financing					
Proceeds/(repayment) of short-term credit facility		**5,000**		(10,000)	
Ordinary shares purchased for cancellation		**–**		(308)	
Ordinary shares purchased for Treasury		**–**		–	
Net cash inflow/(outflow) from financing			**5,000**		(10,308)
Decrease in cash	20		**(3,971)**		(5,076)

The notes on pages 28 to 36 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2010

1 Accounting Policies

ACCOUNTING CONVENTION
The financial statements are prepared under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with UK applicable accounting standards and the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued in January 2009.

INCOME RECOGNITION
UK dividend income is included in the financial statements when the investments concerned are quoted ex-dividend and shown net of any associated tax credit.

Deposit interest and underwriting commissions receivable are included on an accruals basis.

MANAGEMENT EXPENSES AND FINANCE COSTS
Management fees and finance costs are allocated 50% to the capital reserve and 50% to the revenue account. This is in line with the Board's expectations of long-term returns from the investment portfolio of the Company. Performance fees are charged 100% to capital.

Costs arising on early settlement of debt are allocated 100% to capital, in accordance with the requirements of the SORP.

All other expenses are allocated in full to the revenue account.

INVESTMENTS
Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured at fair value.

All investments held by the Company are classified as at "fair value through profit or loss". Investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Income Statement and allocated to capital.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset.

TREASURY SHARES
The consideration paid for shares held in Treasury is presented as a deduction from equity shareholders' funds, in accordance with FRS 25: "Financial Instruments: Disclosure and Presentation". Any profit on the sale of shares out of Treasury is credited to the share premium account in full.

TAXATION
The charge for taxation is based on the net revenue for the year. Deferred taxation is provided in accordance with FRS 19: Deferred Taxation, on all timing differences that have originated but not reversed by the balance sheet date. Deferred taxation assets are only being recognised to the extent that they are regarded as recoverable.

DIVIDENDS PAYABLE TO SHAREHOLDERS
In accordance with FRS 21: "Events after the Balance Sheet date", dividends to shareholders are recognised as a liability in the period in which they have been declared. Therefore, any interim dividends are not accounted for until paid, and final dividends are accounted for when approved by shareholders at an annual general meeting.

BANK LOANS AND BORROWINGS
All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Any differences between cost and redemption value is recognised in the Income Statement over the period of the borrowings on an effective interest basis.

CAPITAL RESERVES
In accordance with the guidance given in the AIC SORP issued January 2009 the capital reserve is not separated into realised and unrealised. Therefore gains and losses on realisation of investments and changes in fair value of investments are shown in one reserve.

2 Income

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Income from investments	**3,205**	2,608
UK dividend income	**3,167**	2,608
Overseas dividend income	**38**	–
Other income		
Interest received on Investment Management fees reclaimed VAT	**–**	181
Bank interest	**1**	247
Underwriting commission	**3**	3
Total income	**3,209**	3,039
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**3,205**	2,608
Interest from financial assets designated at fair value through profit or loss	**1**	247
Dividends and interest	**3,206**	2,855
Interest received on Investment Management fees reclaimed VAT	**–**	181
Other income not from financial assets	**3**	3
Other income	**3**	184
	3,209	3,039

All investment income has been obtained from investments listed in the UK.

3 Management Fee

	Year to 31 March 2010			Year to 31 March 2009		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Management fee	**486**	**487**	**973**	460	460	920
Irrecoverable VAT thereon	**–**	**–**	**–**	–	–	–
VAT reclaimed on Investment Management fees	**–**	**–**	**–**	(486)	(399)	(885)
	486	**487**	**973**	(26)	61	35
Performance fee	**–**	**–**	**–**	–	–	–
Irrecoverable VAT thereon	**–**	**–**	**–**	–	–	–
VAT reclaimed on Performance fees	**–**	**–**	**–**	–	(247)	(247)
	–	**–**	**–**	–	(247)	(247)

The Manager receives a monthly fee equivalent to 1/12 of 1.0% of the gross assets of the Company valued at the close of business on the last business day of each month and is entitled to a performance fee calculated as described in the Directors' Report above.

At 31 March 2010, £93,000 (2009: £58,000) was due for payment to the Manager.

The Company ceased to pay VAT on its Manager's fees from 10 October 2007 as a result of the AIC/Claverhouse ruling. The refund of VAT in the year to 31 March 2009 was in respect of performance fees relating to fees paid in 2007, 2006 and 2001.

Notes to the Financial Statements continued
at 31 March 2010

4 Other Expenses

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Administration and company secretarial fees	**80**	79
Auditor's remuneration (also see * below) for:		
– audit	**24**	20
– other services to the Company	**5**	5
Other expenses (including Directors' remuneration and VAT)	**232**	230
	341	334

* Total fees paid to the Auditor for the year, all of which were charged to revenue, comprised:

Audit services		
– statutory audit	**24**	20
Tax services		
– compliance services	**5**	5
	29	25

The Directors do not consider that the provision of non-audit work to the Company affects the independence of the Auditor.

5 Directors' Remuneration

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Total fees	**87**	85

A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 19.

The Company has no employees.

6 Interest Payable and Similar Charges

Financial liabilities not at fair value through profit or loss	Year to 31 March 2010 Revenue £000	Capital £000	Total £000	Year to 31 March 2009 Revenue £000	Capital £000	Total £000
Interest payable on loan	**86**	**86**	**172**	266	266	532
	86	**86**	**172**	266	266	532

7 Taxation

The current taxation for the year is lower than the standard rate of corporation tax in the UK of 28% (2009: 28%). A reconciliation is provided below:

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Return on ordinary activities before taxation	**39,000**	(35,256)
Theoretical corporation tax at 28% (2009: 28%)	**10,920**	(9,872)
Effects of:		
– Capital (gains)/losses that are not taxable	**(10,438)**	10,539
– Overseas dividend income not liable to corporation tax	**(11)**	–
– UK dividend income not liable to corporation tax	**(887)**	(730)
– expenses disallowed for taxation purposes	**8**	9
– excess management expenses	**408**	54
Total current taxation charge	**–**	–

At 31 March 2010, the Company had surplus management expenses and non-trade losses of £22,025,508 (2009: £20,575,810), which have not been recognised as a deferred taxation asset. This is because the Company is not expected to generate taxable income in future periods in excess of the deductible expenses of those future periods and, accordingly, it is unlikely that the Company will be able to reduce future taxation through the use of existing surplus expenses.

Due to the Company's status as an Investment Trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

8 Dividends

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Paid		
2009 Final dividend of 6.85p* (2008: 3.65p) per Ordinary share	**2,293**	1,227
Proposed and part-paid		
Interim dividend paid of 3.00p per Ordinary share (2009: nil)	**1,004**	–
2010 Final dividend of 3.20p (2009: 6.85p) per Ordinary share	**1,071**	2,293

* Including a non-recurring element of 1.99p.

9 Return per Share

	Year to 31 March 2010			Year to 31 March 2009		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**6.86p**	**109.64p**	**116.50p**	7.36p	(112.54p)	(105.18p)

Revenue return per Ordinary share is based on the net revenue after taxation of £2,296,000 (2009: £2,465,000) and 33,475,958 (2009: 33,518,244) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in Treasury.

Capital return per Ordinary share is based on net capital gains for the year of £36,704,000 (2009: losses of £37,721,000), and on 33,475,958 (2009: 33,518,244) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in Treasury.

Normal and diluted return per share are the same as there are no dilutive elements on share capital.

10 Investments

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Total investments at fair value	**110,160**	64,207

The investment portfolio comprises 67 listed UK equity holdings including 15 holdings totalling £22,311,000 (representing 20% of the portfolio) traded on the Alternative Investment Market (“AIM”).

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Opening book cost	**80,990**	90,403
Opening fair value adjustment	**(16,783)**	15,751
Opening valuation	**64,207**	106,154
Movements in the year		
Purchases at cost	**41,644**	14,251
Sales – proceeds	**(32,968)**	(18,557)
Sales – gains/(losses) on sales	**4,606**	(5,107)
Changes in fair value	**32,671**	(32,534)
Closing valuation	**110,160**	64,207
Closing book cost	**94,272**	80,990
Closing fair value adjustment	**15,888**	(16,783)
	110,160	64,207

FAIR VALUE HIERARCHY

In accordance with Financial Reporting Standard No. 29: “Financial Instruments: Disclosures”, the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following three levels:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements continued
at 31 March 2010

10 Investments continued
For financial instruments (within the scope of FRS 29), which are measured at fair value in the balance sheet an entity shall disclose the following for each class of financial instruments:

- the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;
- any significant transfers between level 1 and level 2 of the fair value hierarchy and the reasons for those transfers;
- for fair value measurements in level 3 of the hierarchy, a reconciliation from the beginning balances to the ending balances. As well as highlighting purchases, sales, and gains and losses, this reconciliation will identify transfers into or out of level 3 and the reasons for those transfers.

All of the Company's financial instruments fall into level 1, being valued at quoted prices in active markets.

TRANSACTION COSTS
During the year, the Company incurred transaction costs of £246,000 (2009: £95,000) and £62,000 (2009: £27,000) on purchases and sales of investments, respectively. These amounts are deducted in determining gains/(losses) on investments at fair value as disclosed in the Income Statement.

	31 March 2010 Total £000	31 March 2009 Total £000
Net gains/(losses) on investments at fair value though profit or loss		
Gains/(losses) on sales	**4,606**	(5,107)
Changes in fair value	**32,671**	(32,534)
	37,277	(37,641)

A list of the top 50 investments by market value and an analysis of the investment portfolio by industrial or commercial sector are set on pages 8 and 9.

11 Significant Holdings
The Company has a holding of 3% or more of the voting rights attached to shares that is material in the context of the accounts in the following investments:

Security	% of voting rights
Lok'n Store Group PLC	5.6
Zytronic PLC	5.1
Superglass Holdings PLC	3.9
The Stanley Gibbons Group PLC	3.6
Latchways PLC	3.1

12 Debtors

	31 March 2010 £000	31 March 2009 £000
Prepayments and accrued income	**8**	42
Dividends receivable	**333**	302
	341	344

The carrying amount for prepayments, accrued income and dividends receivable disclosed above reasonably approximates to its fair value at the year end and is expected to be realised within a year from the balance sheet date.

13 Other Creditors

	31 March 2010 £000	31 March 2009 £000
Accruals and deferred income	**1,402**	126
	1,402	126

The carrying amount for accruals and deferred income disclosed above reasonably approximates to its fair value at the year end and is expected to be realised within a year from the balance sheet date. The carrying amount includes £1,190,000 due to brokers (2009: £nil).

14 Revolving Credit Facility

	31 March 2010 £000	31 March 2009 £000
Falling due within one year	**10,000**	5,000
Falling due after more than one year	**–**	–
	10,000	5,000

The Company has a £15,000,000 Revolving Credit Facility with ING Bank N.V.

As at 31 March 2010, £10,000,000 was drawn down (31 March 2009: £5,000,000), all of which has a fixed interest rate of 1.84%* and is repayable on 13 December 2010. The remaining £5,000,000 was drawn down on 13 April 2010, at a rate of 1.50%, and is repayable on 13 October 2010.

* Including margin and mandatory costs.

15 Share Capital

	31 March 2010 £000	31 March 2009 £000
Authorised:		
82,101,048 (2009: 82,101,048) Ordinary shares of 10p each	**8,210**	8,210
Allotted, called-up and fully paid:		
33,475,958 (2009: 33,475,958) Ordinary shares of 10p each	**3,348**	3,348

Voting rights

Ordinary shareholders have unrestricted voting rights at all general meetings of the Company.

At the Annual General Meeting on 31 July 2009 the Company was granted the authority to purchase 5,018,046 Ordinary shares. As at 31 March 2010 the Company had remaining authority to purchase 5,018,046 Ordinary shares. This authority is due to expire at the conclusion of the next Annual General Meeting.

During the year no shares were purchased for cancellation.

The Company does not have any externally imposed capital requirements. The capital of the Company is managed in accordance with its investment policy in pursuit of its investment objectives, both of which are detailed above.

16 Duration of the Company

At the Company's AGM held on 31 July 2009 Shareholders voted to remove the obligation under the Articles of Association to convene a General Meeting during 2010 for the purpose of voluntarily winding up the Company, as provided for in the Company's Articles of Association. The Company will be required to propose a resolution at a General Meeting every five years thereafter unless, at any AGM held within, and not more than, 18 months prior to the expiry of the relevant period of five years, an Ordinary Resolution is passed releasing the Directors from the obligation to convene such a General Meeting.

17 Own Shares Held in Treasury

The Company has taken advantage of the regulations which came into force on 1 December 2003 to allow companies, including investment trusts, to buy its own shares and hold them in Treasury for re-issue at a later date. There were no shares held in Treasury at any time during the year.

SUMMARY

	Year to 31 March 2010			Year to 31 March 2009		
	Own shares held in Treasury		**Premium on disposal**	Own shares held in Treasury		Premium on disposal
	Number	**£000**	**£000**	Number	£000	£000
At 1 April	**–**	**–**	**–**	1,828,000	4,501	–
Additions	**–**	**–**	**–**	–	–	–
Cancellation – book cost	**–**	**–**	**–**	(1,828,000)	(4,501)	–
Disposals – book cost	**–**	**–**	**–**	–	–	–
At 31 March	**–**	**–**	**–**	–	–	–

18 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £101,295,000 (2009: £65,592,000) and on 33,475,958 (2009: 33,475,958) Ordinary shares being the number of Ordinary shares in issue at the year end.

Notes to the Financial Statements continued
at 31 March 2010

19 Reconciliation of Net Revenue Before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Net revenue before finance costs and taxation	**2,382**	2,731
Management fee charged to capital	**(487)**	(460)
VAT reclaim on Investment Management Fees charged to capital	**–**	646
Increase/(decrease) in creditors	**40**	(45)
(Increase)/decrease in prepayments and accrued income	**(24)**	110
Net cash inflow from operating activities	**1,911**	2,982

20 Reconciliation of Net Cash Flows to Movements in Net Cash/(Debt)

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Decrease in cash in year	**(3,971)**	(5,076)
Proceeds of credit facility	**(5,000)**	–
Repayment of credit facility	**–**	10,000
Movement in net funds	**(8,971)**	4,924
Net cash/(debt) at beginning of year	**1,167**	(3,757)
Net (debt)/cash at end of year	**(7,804)**	1,167

ANALYSIS OF NET CASH/(DEBT)

	1 April 2009 £000	Cash flows £000	**31 March 2010 £000**
Cash at bank	6,167	(3,971)	**2,196**
Debt due in less than one year	(5,000)	(5,000)	**(10,000)**
Debt due after one year	–	–	**–**
	1,167	(8,971)	**(7,804)**

21 Analysis of Financial Assets and Liabilities

As required by FRS 29: "Financial Instruments: Disclosures", an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given below.

BACKGROUND

The Company's financial instruments comprise securities, cash balances and debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

The Company has little or no exposure to cash flow or foreign currency risk.

The principal risks the Company faces in its portfolio management activities are:

- credit risk;
- market price risks, i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement;
- interest rate risk;
- liquidity risk i.e. the risk that the Company has difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments; and
- gearing.

The Manager monitors the financial risks affecting the Company on a daily basis. The Directors receive financial information on a monthly basis which is used to identify and monitor risk.

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if the contractual party to a financial instrument fails to meet its contractual obligations.

21 Analysis of Financial Assets and Liabilities continued

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

The Company's listed investments are held on its behalf by HSBC acting as agent, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Board monitors the Company's risk by reviewing the custodian's internal controls reports.

Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered in its obligations before any transfer of cash or securities away from the Company is completed.

The banks at which cash is held are under constant review.

The maximum exposure to credit risk at 31 March 2010 was:

	31 March 2010 £000	31 March 2009 £000
Cash at bank	**2,196**	6,167
Debtors and prepayments	**341**	344
	2,537	6,511

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

(ii) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments. The value of shares and the income from them may fall as well as rise and shareholders may not get back the full amount invested. The Manager continues to monitor the prices of financial instruments held by the Company on a real time basis. Adherence to the Company's investment objectives shown on page 37 mitigates the risk of excessive exposure to one issuer or sector.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and each meeting reviews the investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore the portfolio may well diverge from the short term fluctuations of the benchmark.

Fixed asset investments are valued at their bid price which equates to their fair value. A list of the Company's 50 largest equity investments is given on page 8. In addition, an analysis of the investment portfolio by broad industrial and commercial sector, an analysis of the portfolio by market capitalisation of holdings and a description of the 30 largest equity investments are contained in the Manager's Review section.

The maximum exposure to market price risk is the fair value of investments of £110,160,000 (2009: £64,207,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2010 it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £1,102,000 (2009: £642,000). An increase of 1% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation.

(iii) Interest Rate Risk

Changes in interest rates may cause fluctuations in the income and expenses of the Company. The revolving credit facility with ING Bank N.V. is a fixed rate facility (see note 14). The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board. The Company mitigates the risk by fixing the interest rates of the facility for six months at a time.

The Company received interest on cash deposits over £25,000 at a rate of 0.03%. The interest received in the year amounted to £1,000 (2009: £247,000).

The interest risk profile of the Company is given below.

If interest rates had reduced by 1% from those paid as at 31 March 2010 it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £100,000 (2009: £50,000). If there was an increase in interest rates of 1% there would have been an equal and opposite effect in the net revenue return before taxation. The calculations are based on cash at bank and short-term deposits as at 31 March 2010 and these may not be representative of the year as a whole.

Due to the short-term nature of the loan facility, changes in interest rates would not have an effect on the fair value of the loan.

Notes to the Financial Statements continued
at 31 March 2010

21 Analysis of Financial Assets and Liabilities continued

(iv) Liquidity Risk
Liquidity is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Manager does not invest in unlisted securities on behalf of the Company. However, the investments held by the Company consist of UK quoted small companies which are inherently less liquid than quoted large companies. Short-term flexibility is achieved through the use of bank borrowings. Liquidity risk is mitigated by the fact that the Company has £2.2 million cash at bank which can satisfy its creditors and that as a closed end fund assets do not need to be liquidated to meet redemptions.

(v) Gearing
Gearing can have amplified effects on the net asset value of the Company. It can have a positive or negative effect depending on market conditions. It is the Company's policy to determine the adequate level of gearing appropriate to its own risk profile.

(vi) Use of Derivatives
It is not the Company's policy to enter into derivative contracts.

FINANCIAL ASSETS
All of the Company's financial assets are listed equity shares which neither pay interest nor have a maturity date. No fixed interest assets were held at 31 March 2010 nor during the year.

All financial assets are in sterling and disclosed at fair value through profit or loss.

FINANCIAL LIABILITIES
The Company finances its operations through equity, retained profits and bank borrowings (see note 14). The change in the fair value of financial liabilities during the year was not related to the credit risk profile. The interest rate risk profile of the financial liabilities of the Company as at 31 March 2010 is as follows:

	Total £000	**Weighted average interest rate %**	**Period until maturity Years**
Amounts drawn down under fixed revolving credit facility	**10,000**	**2.0381**	**0.70**
Financial liabilities upon which no interest is paid	**1,402**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2009 was as follows:

	Total £000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under fixed revolving credit facility	5,000	5.5338	0.45
Financial liabilities upon which no interest is paid	126	–	–

The maturity profile of the Company's financial liabilities is as follows:

	As at 31 March 2010 £000	As at 31 March 2009 £000
In one year or less	**11,402**	5,126
In more than one but not more than two years	**–**	–
In more than two years but not more than five years	**–**	–
	11,402	5,126

The Company had £5,000,000 undrawn under the fixed Revolving Credit Facility at 31 March 2010 (2009: £10,000,000).

The Company's fixed revolving credit facility is measured at cost and denominated in sterling. All other financial liabilities are in sterling and disclosed at fair value. It is considered that, because of the short term nature of the facility, cost approximates to fair value.

22 Previous Commitments and Contingent Liabilities
At 31 March 2010, there were no capital commitments (2009: nil).

23 Related Party Transactions
Under the Listing Rules the Manager is regarded as a related party of the Company. The amounts paid to the Manager are disclosed in note 3. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies, and therefore, in terms of FRS 8: "Related Party Transactions", the Manager is not considered a related party. The relationship between the Company, its Directors and the Manager is disclosed in the Directors' Report.

Company Summary

Investment Objective
MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on the Alternative Investment Market ("AIM") and to achieve relative outperformance of its benchmark, the FTSE SmallCap (excluding investment companies) Index ("SmallCap").

No unquoted investments are permitted.

Investment Policy
The Company seeks to achieve its objective and to diversify risk by investing in a portfolio of quoted UK Smaller Companies. At the time of initial investment, a potential investee company must be profitable and smaller than the largest constituent of the HGSC Index, which represents the smallest 10% of the UK Stock Market by value. At the start of 2010, this was any company below £1.2 billion in size. The Manager focuses on the smaller end of this Index.

In order to manage risk the Manager will normally limit any one holding to a maximum of 5% of the Company's investments. The weightings for every stock are closely monitored to ensure they reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 30% of total investments with Board approval required for exposure to be above 25%.

The Manager is focused on identifying high quality niche companies operating in growth markets. This typically leads the Manager to invest in companies that enjoy high barriers to entry, a sustainable competitive advantage and strong management teams. The portfolio is therefore constructed on a "bottom up" basis and there are no sectoral constraints placed on the Manager.

The Board, in consultation with the Manager, is responsible for determining the gearing strategy of the Company. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has a credit facility of £15 million through ING Bank of which £10 million was drawn as at 31 March 2010 the remaining £5 million was drawn down on 13 April 2010. The Board has agreed to limit borrowings to 25% of shareholders' funds.

Benchmark
FTSE SmallCap (excluding investment companies) Index ("SmallCap").

Gross Assets
£112,697,000 as at 31 March 2010.

Shareholders' Funds
£101,295,000 as at 31 March 2010.

Market Capitalisation
£78,334,000 as at 31 March 2010.

Capital Structure
As at 31 March 2010 and at the date of this report, the Company had 33,475,958 Ordinary shares of 10p each in issue (of which none were held in Treasury).

Wind up Date
In accordance with the Articles of Association, an Ordinary resolution will to be put to shareholders at an Annual General Meeting to be held after 30 November 2012 to release the Directors from the obligation to convene a General Meeting in 2014 for the purpose of winding up the Company.

Management Fee
The management fee comprises two components: a fixed fee of 1/12 of 1% of the gross assets of the Company, payable monthly in arrears, and a performance fee of 0.1% of the gross assets of the Company for each 1% outperformance (or part thereof) of the Company's NAV against the SmallCap over the financial year, subject to a maximum of 0.5% of the gross assets calculated at the end of the financial year. For further details see page 14.

Administration and Company Secretarial Fees
The Company Secretary receives an annual fee of £80,000, which is subject to an annual RPI uplift. The Company ceased to pay VAT on its administration and company secretarial fees in October 2008.

Sources of Information
All information contained within the Chairman's Statement and the Manager's Report has been provided by Montanaro Asset Management Limited unless otherwise noted.

Glossary of Terms

NAV
NAV stands for Net Asset Value and represents shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of a company's assets at current market value less its liabilities.

Discount
If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

Gearing
Gearing is the process whereby growth or decline in the total assets of a company has an exaggerated effect on the NAV of that company's ordinary shares due to the presence of borrowings or share classes with a prior ranking entitlement to capital.

Net Gearing
Net gearing is the total debt, net of cash and equivalents as a percentage of the total shareholders' funds.

Gross Assets
Gross assets are the sum of both fixed and current assets with no deductions.

Montanaro, Manager or Investment Manager
Montanaro Asset Management Limited.

MUSCIT
The Montanaro UK Smaller Companies Investment Trust PLC.

S842
Section 842 Income and Corporation Taxes Act 1988.

TER
Total Expense Ratio, the ratio of the Company's expenses to its Net Assets.

Articles
The Company's Articles of Association.

Shareholder Information

Sources of Further Information
The Company's share price is listed in the Financial Times under "Investment Companies".

Information on the Company is also available on the Manager's website: www.montanaro.co.uk.

Key Dates

31 March 2010	Company year end
21 June 2010	Annual results
30 June 2010	Ex-dividend
30 July 2010	Annual General Meeting
13 August 2010	Dividend payable
November 2010	Interim results

Half-Yearly Report
To reduce ongoing costs the Board has decided not to print the Half-Yearly Report. The Report will be published on the Company's website www.montanarouksmaller.co.uk.

Frequency of NAV Publication
The Company's NAV is released to the London Stock Exchange on a daily basis.

PEP/ISA Status
The Company is fully eligible for inclusion in ISAs and transfers into existing PEPs.

AIC
The Company is a member of the Association of Investment Companies.

APPENDIX

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

Set out below is a summary of the principal changes in the New Articles. References to article numbers are those used in the New Articles (except where reference is made to a provision which has been deleted).

1 The Company's objects

The provisions regulating the operations of the Company were until 1 October 2009 set out in the Company's memorandum and articles of association.

The Companies Act ("CA") 2006 significantly reduces the constitutional significance of a company's memorandum. The CA 2006 provides that the memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the CA 2006 the majority of the previous provisions of the memorandum, most notably the objects clause, are deemed to be part of the company's articles of association with effect from 1 October 2009.

Further the CA 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause (together with all other provisions of its memorandum which, by virtue of the CA 2006, are treated as forming part of the Company's articles of association as of 1 October 2009). This will be achieved by the adoption of New Articles which contain no such provisions other than a statement regarding the limited liability of shareholders.

2 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the CA 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

3 Change of name (Article 3)

Under the CA 1985, a company could only change its name by special resolution. Under the CA 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

4 Authorised share capital and unissued shares (Former Article 3)

The CA 2006 removes the concept of authorised share capital. As with the objects clause (see paragraph 1), the statement of authorised share capital previously contained in a company's memorandum of association is deemed with effect from 1 October 2009 to be a provision of the company's articles of association (and takes effect as setting out the maximum number of shares that may be allotted by the company). The adoption of the New Articles will have the effect of removing this provision.

Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the CA 2006, save in respect of employee share schemes.

5 Redeemable shares (Article 8)

Under the CA 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The CA 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need shareholders' authority to issue new shares in the usual way.

6 Suspension of registration of share transfers (Former Article 12)

The Current Articles permit the Directors to suspend the registration of transfers for up to 30 days in any year, reflecting a provision of the CA 1985. Under the CA 2006 share transfers must be registered as soon as practicable. Accordingly, the provision which allowed the Company to suspend the registration of transfers has been removed in the New Articles.

7 Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (Former Articles 7 and 16)

Under the CA 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the CA 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

8 Adjournments for lack of quorum (Article 55)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles reflect this requirement.

9 Electronic conduct of meetings (Article 61)

Amendments made to the CA 2006 by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The Current Articles have been amended to reflect more closely the relevant provisions.

10 Chairman's casting vote (Former Article 27)
The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the CA 2006.

11 Voting by proxies on a show of hands (Article 71)
Under the CA 2006 as amended by the Shareholders' Rights Regulations, each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes and contain a provision clarifying how the provision of the CA 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

12 Timing for submission of proxy appointments (Article 73)
Article 73 has been amended to permit the directors to specify, in a notice of meeting, that in determining the time for delivery of proxy appointments, no account shall be taken of non-working days. This brings the provisions relating to timing for proxy appointments into line with the provisions of Article 143 (see paragraph 17) regarding determining which persons may attend and vote at a general meeting.

13 Validity of votes by proxies and corporate representatives (Article 76)
Under the CA 2006 as amended by the Shareholders' Rights Regulations, proxies have an obligation to vote in accordance with the instructions given to them by the member appointing them. The New Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with these instructions.

The New Articles also provide that any objection to the qualification of a person voting must be made at the meeting at which the vote objected to is tendered or at the time any poll is taken and that the chairman's decision is final and binding. The New Articles require a member to provide reasonable evidence of his and his proxy's identity and also specify what a member must provide by way of evidence if a proxy is appointed by a person acting on behalf of a member.

14 Vacation of office by directors (Article 100)
The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

15 Directors' interests (Articles 117-124)
The articles dealing with directors' conflicts of interest have been amended in line with market practice. Under the New Articles certain conflicts of interest do not need to be authorised, for example an interest as a director of a group company. Generally the nature and extent of any conflict of interest must be disclosed before it can be authorised or before it is permitted without being authorised but the New Articles provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary. The New Articles also allow the board to exercise voting rights in group companies without restriction e.g. so as to appoint a director to the board of a group company without this counting as a conflict requiring authorisation.

16 Use of seals (Former Article 49)
Under the CA 1985, a company required authority in its articles to have an official seal for use abroad. Under the CA 2006, such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

17 Record date for right to attend and vote at meetings (Article 143)
The New Articles include a new provision, not in the Current Articles, dealing with the method for determining which persons are allowed to attend or vote at a general meeting of the Company and how many votes each person may cast. Under this new provision, when convening a meeting the Company must specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day), by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. This reflects a new provision introduced by the Shareholders' Rights Regulations.

18 Distribution of assets otherwise than in cash (Former Article 84)
The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that in the situation in which a distribution in kind is being contemplated it is likely to be done only with unanimity or as part of a scheme and can therefore be better dealt with at the time than legislated for in advance.

19 General
Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills.

Notice of Annual General Meeting

Notice is hereby given that the Fifteenth Annual General Meeting of the Company will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Friday, 30 July 2010 at 12 noon for the following purposes:

Ordinary Business

RESOLUTION 1 – ORDINARY RESOLUTION
To receive and, if thought fit, to accept the Reports of the Directors and the Auditor and the audited financial statements for the year ended 31 March 2010.

RESOLUTION 2 – ORDINARY RESOLUTION
To receive and, if thought fit, to accept the Directors' Remuneration Report for the year ended 31 March 2010.

RESOLUTION 3 – ORDINARY RESOLUTION
To declare a final dividend of 3.20p per Ordinary share for the year ended 31 March 2010.

RESOLUTION 4 – ORDINARY RESOLUTION
To re-elect David Gamble as a Director of the Company.

RESOLUTION 5 – ORDINARY RESOLUTION
To re-elect Michael Moule as a Director of the Company.

RESOLUTION 6 – ORDINARY RESOLUTION
To elect Kathryn Matthews as a Director of the Company.

RESOLUTION 7 – ORDINARY RESOLUTION
To re-appoint KPMG Audit Plc as Auditor to the Company to hold office from the conclusion of this Meeting until the conclusion of the next General Meeting at which financial statements are laid and to authorise the Directors to determine their remuneration.

Special Business

RESOLUTION 8 – SPECIAL RESOLUTION
That in substitution for the Company's existing authority to make market purchases of Ordinary Shares of 10p each in the capital of the Company ("Ordinary Shares"), the Company be and is hereby generally and 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 Ordinary Shares, provided that:

(i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 5,018,046, or if less, 14.99% of the number of shares in issue immediately following the passing of this resolution;

(ii) the minimum price which may be paid for each Ordinary share is 10p;

(iii) the maximum price payable by the Company for each Ordinary Share is the higher of (i) 105%. of the average of the mid-market value of the Ordinary Shares in the Company for the five business days prior to the date of the market purchase and (ii) the higher of the price of the last independent trade and the highest current bid as stipulated by Article 5(1) of Buy-Back and Stablisation Regulation;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2011 or, if earlier, on the expiry of 15 months from the passing of this Resolution, unless such authority is renewed prior to such time;

(v) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract; and

(vi) any shares purchased under the authority hereby conferred and held in Treasury by the Company shall, if not issued out of Treasury within 12 months following such purchase, be cancelled.

RESOLUTION 9 – ORDINARY RESOLUTION

That the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any authorities previously granted to the Directors) to the extent unused, pursuant to Section 551 of the Companies Act 2006 ("the Act"), to exercise all the powers of the Company to allot shares and to grant rights to subscribe for, or to convert any security into shares in the Company (Rights).

(A) up to an aggregate nominal amount of £1,115,865, (being one-third of the issued share capital (excluding treasury shares) as at the date of this report); and

(B) comprising equity securities (within the meaning of section 560 of the Act) up to a further aggregate nominal amount of £1,115,865 in connection with an offer by way of a rights issue.

(i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings: and

(ii) to holders of other equity securities (if any) as required by the rights of those securities or as the Directors otherwise consider necessary,

And so that Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts),

Provided that the authorities conferred on the Directors by paragraphs (A) and (B) above shall, unless renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so the Directors of the Company may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

RESOLUTION 10 – SPECIAL RESOLUTION

THAT, subject to the passing of Resolution 9 above (and in substitution for all subsisting authorities to the extent unused but without prejudice to the exercise of any such power prior to the date hereof), the Directors be and are hereby empowered pursuant to Section 570 and Section 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 9 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of equity securities (but in the case of the authority granted under paragraph (B) of Resolution 9, by way of a rights issue only):

(i) to holder of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities (if any) as required by the rights of those securities or as Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts); and

(b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £334,759 (being 10% of the issued share capital (excluding treasury shares) as at the date of this report)

and shall expire at the conclusion of the Company's next Annual General Meeting after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

RESOLUTION 11 – SPECIAL RESOLUTION

That, subject to the passing of Resolution 9 set out above, the Directors of the Company be and are hereby authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to issue Ordinary shares of 10p each in the capital of the Company at a price below the net asset value per share of the existing Ordinary shares in issue, provided always that such issue will be limited to:

(i) an aggregate nominal amount of £334,759, being 10% of the Ordinary shares in issue as at the date of this report;

(ii) the sale of shares which, immediately before such sale, were held by the Company as Treasury shares; and

(iii) the authority contained in Resolution 9 set out above.

Notice of Annual General Meeting continued

RESOLUTION 12 – SPECIAL RESOLUTION
To consider and if thought fit. Pass the following resolution as a Special Resolution:

(a) the Articles of Association of the Company be amended by deleting all provisions of the Company's Memorandum of Association which, by virtue of section 28 Companies Act 2006, are to treated as provisions of the Company's Articles of Association; and

(b) the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By Order of the Board

CAPITA SINCLAIR HENDERSON LIMITED
Company Secretary
21 June 2010

Notice of Annual General Meeting continued

Note 1: Pursuant to section 324 of the Companies Act 2006, a member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy or proxies to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed, they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a notarially certified copy thereof, should be lodged at the office of the Company's Registrar, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment thereof. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder. The termination of the authority of a person to act as proxy must be notified to the Company in writing. Amended instructions must be received by the Company's Registrar by the deadline for receipt of proxies. To appoint more than one proxy, shareholders will need to complete a separate proxy form in relation to each appointment (you may photocopy the proxy form), stating clearly on each proxy form the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares to which each proxy appointment relates to or specifying an aggregate number of shares in excess of those held by the member will result in the proxy appointment being invalid. Please indicate if the proxy instruction is one of multiple instructions being given. All proxy forms must be signed and should be returned together in the same envelope.

Note 2: Shareholders who hold their shares electronically may submit their votes through CREST, by submitting the appropriate and authenticated CREST message so as to be received by the Company's Registrar not later than 48 hours (excluding non-working days) before the start of the meeting or any adjournment thereof. Instructions on how to vote through CREST can be found by accessing the following website: www.euroclear.com/CREST. Shareholders are advised that CREST is the only method by which completed proxies can be submitted electronically. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting and any adjournment thereof by following the procedures described in the CREST Manual. 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. In order for a proxy appointment or instruction made by means of CREST 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 instructions, as described in the CREST Manual (available via www.euroclear.com/crest). The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID RA10) by the latest time for receipt of proxy appointments specified in Note 1 above. 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 Applications Host) from which the Company's agent 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. 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 messages. 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 service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. 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.

Note 3: A 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 Annual General Meeting. 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. The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in this Note can only be exercised by registered members of the Company.

Note 4: As at 17 June 2010 (the business day prior to the publication of this notice) the Company's issued share capital amounted to 33,475,958 ordinary shares carrying one vote each. The total voting rights in the Company as at 17 June 2010 were 33,475,958 votes.

Note 5: Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, as amended and/or the purposes of Section 360B of the Companies Act 2006, the Company specifies that only those Shareholders registered on the Register of Members of the Company as at 6.00 pm on 28 July 2010 (or, in the event that the meeting is adjourned, only those Shareholders registered on the Register of Members of the Company as at 6.00 pm on the day which is two days prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Note 6: In accordance with Section 319A of the Companies Act 2006, the Company must cause any question relating to the business being dealt with at the meeting put by a member attending the meeting to be answered. No such answer need be given if:

a) to do so would:
(i) interfere unduly with the preparation for the meeting, or
(ii) involve the disclosure of confidential information;
b) the answer has already been given on a website in the form of an answer to a question; or
c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Note 7: A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company (provided, in the case of multiple corporate representatives of the same corporate shareholder, they are appointed in respect of different shares owned by the corporate shareholder or, if they are appointed in respect of those same shares, they vote those shares in the same way). To be able to attend and vote at the meeting, corporate representatives will be required to produce prior to their entry to the meeting evidence satisfactory to the Company of their appointment. Corporate shareholders can also appoint one or more proxies in accordance with Note 1. On a vote on a resolution on a show of hands, each authorised person has the same voting rights to which the corporation would be entitled. On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same shares:

Notice of Annual General Meeting continued

Note 7 continued
a) if they purport to exercise the power in the same way as each other, the power is treated as exercised in that way;

b) if they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.

Note 8: Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

Note 9: A copy of this notice of Annual General Meeting is available on the Company's website: www.montanarouksmaller.co.uk.

Note 10: The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice until the conclusion of the at Annual General Meeting at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AE, and on the date of the Annual General Meeting at 10 am until the conclusion of the meeting:

(a) letters of appointment of the Directors of the Company;

(b) a copy of the existing Articles of Association of the Company.

(c) a copy of the proposed new Articles of Association of the Company.

Note 11: This notice, together with information about the total number of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 17 June 2010 (the business day prior to the publication of this Notice) and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice, will be available on the Company's website www.montanarouksmaller.co.uk.

Registered in England and Wales No. 3004101.

Form of Proxy

for use at the Fifteenth Annual General Meeting

I/We (block capitals please) ______________________________

Address ______________________________

being a member/members of Montanaro UK Smaller Companies Investment Trust PLC, hereby appoint the

Chairman of the Meeting /______________________________(see note 1).

as my/our proxy to vote for me/us on my/our behalf at the Fifteenth Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on 30 July 2010 at 12 noon and at any adjournment thereof.

Signature ______________________________

Dated ______________________________ 2010

Please indicate with an X in the spaces below how you wish your votes to be cast.

☐ Please tick here to indicate that this proxy appointment is one of multiple appointments being made.

		For	Against	Withheld
RESOLUTION 1	To receive the Reports of the Directors and Auditor and the audited financial statements for the year ended 31 March 2010.			
RESOLUTION 2	To receive the Directors' Remuneration Report for the year ended 31 March 2010.			
RESOLUTION 3	To declare a final dividend of 3.20p per Ordinary 10p share for the year ended 31 March 2010.			
RESOLUTION 4	To re-elect David Gamble a Director of the Company.			
RESOLUTION 5	To re-elect Michael Moule a Director of the Company.			
RESOLUTION 6	To elect Kathryn Matthews a Director of the Company.			
RESOLUTION 7	To re-appoint KPMG Audit Plc as Auditor and to authorise the Directors to determine its remuneration.			
RESOLUTION 8	That the Company be authorised to make market purchases of up to 5,018,046 (or if less, 14.99%) of its Ordinary shares of 10p each.			
RESOLUTION 9	To allot relevant securities in accordance with Section 551 of the Companies Act 2006.			
RESOLUTION 10	To allot relevant securities for cash and to disapply pre-emption rights, in accordance with Section 570 and 573 of the Companies Act 2006.			
RESOLUTION 11	To issue shares held in Treasury at a discount to net asset value.			
RESOLUTION 12	To amend the Company's Articles of Association.			

Notes

1 A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words "the Chairman of the Meeting" and insert the name of the person appointed proxy in the space provided.

2 The "Vote Withheld" option is provided to enable you to instruct the registered holder to abstain from voting. A "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" or "Against" a Resolution.

3 You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars helpline on 0871 664 0300 (calls will cost 10p per minute plus network charges) or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

4 If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.

5 In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated.

6 If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.

7 To be valid, this form must be completed and deposited at the office of the Registrar of the Company by post to Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by hand during normal business hours to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.

Please see enclosed self addressed envelope for return of this proxy form.

Notes

Designed and produced by **Emperor Design Consultants Ltd**
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