MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2011

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.

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Highlights
for the year ended 31 March 2011

Results

> NAV	+39%	£141m
> Gross assets	+40%	£157m
> Share price	+52%	£119m*
> FTSE SmallCap Index	+12%**	

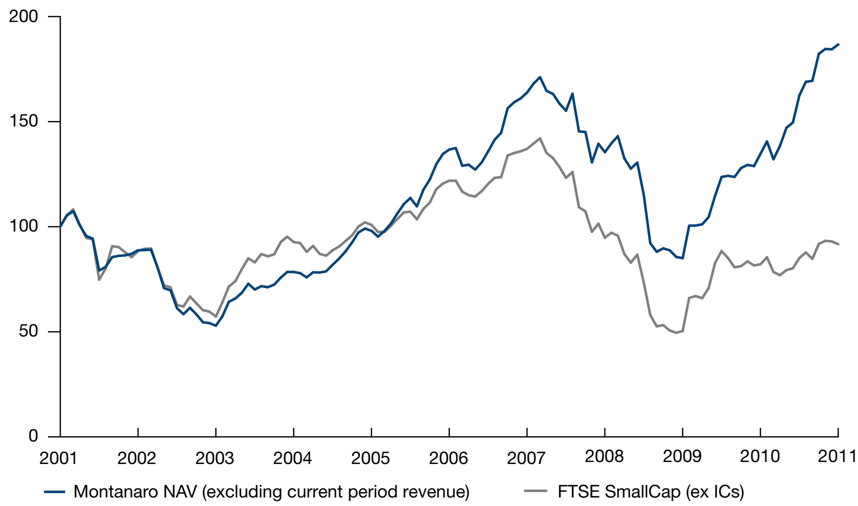
* Market capitalisation.
** Excluding Investment Companies.

	Year to 31 March 2011	Year to 31 March 2010
Revenue return on ordinary activities (£000)	2,516	2,296
Movement in capital reserve (£000)	38,413	36,704
Revenue return per Ordinary share	7.51p	6.86p
Dividend per Ordinary share	6.76p	6.20p*
Total return per Ordinary share	122.26p	116.50p

	As at 31 March 2011	As at 31 March 2010
Ordinary share price	355.00p	234.00p
NAV per Ordinary share	421.65p	302.59p

* Includes 3p interim dividend paid December 2009.

NAV Performance vs SmallCap



Source: Montanaro Asset Management Limited/FTSE

Chairman's Statement

"Smaller companies are leaner and meaner than ever today, have recovered well and are generating record levels of cash and profits."

Highlights 2011

- In the year to 31 March 2011, the NAV of MUSCIT increased by 39% to 421.65p in comparison with a 12% rise by the SmallCap.
- Since launch, the NAV of MUSCIT has increased by 320% in comparison with a gain of 55% by the SmallCap outperforming by 265%.

Background

I am pleased to present the 16th 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 £141 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 2011, the NAV of MUSCIT increased by 39% to 421.65p in comparison with a 12% rise in the SmallCap.

Since launch, the NAV of MUSCIT has increased by 320% in comparison with a gain of 55% by the SmallCap, outperforming by 265%.

Discount

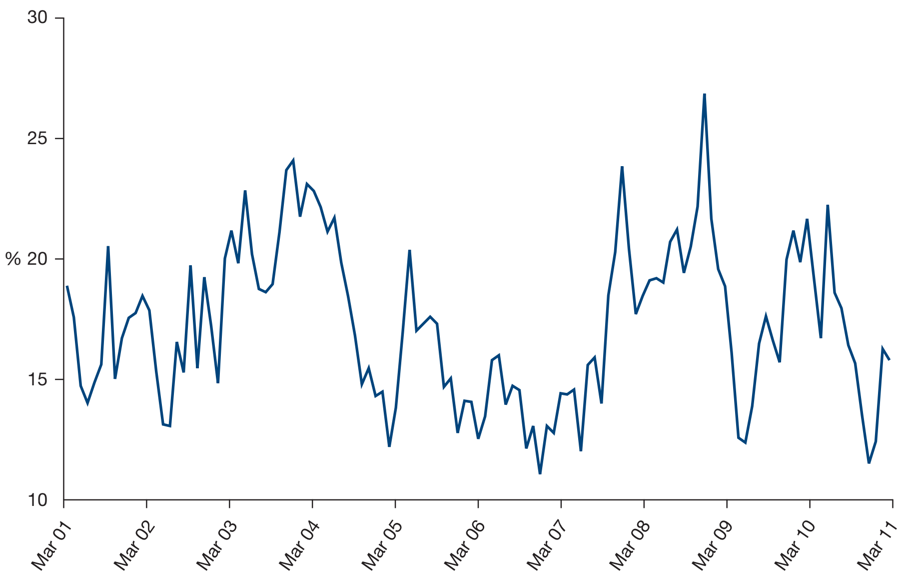
The discount of MUSCIT's share price to NAV stood at 16% on 31 March 2011 in comparison with a weighted sector average of 14% (source: Close Wins Investment Trusts).

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.

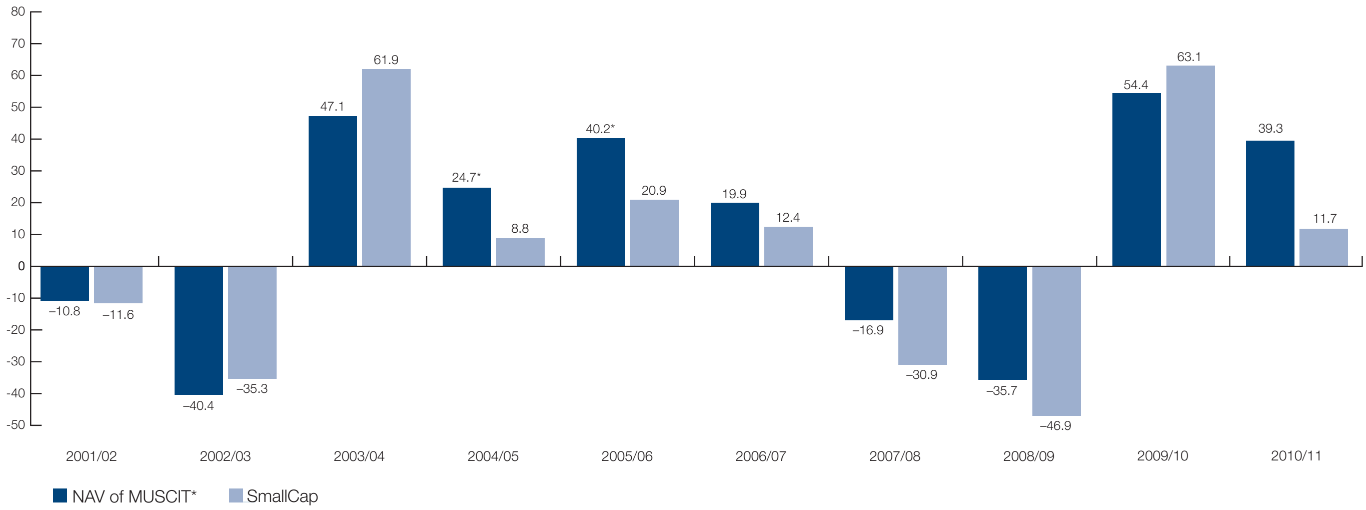
Share Price Discount to NAV



Source: Montanaro Asset Management Limited/Bloomberg

Chairman's Statement continued

Annual NAV Performance vs SmallCap



* Restated for changes to UK GAAP (all other years have not been restated).

Source: Capita Sinclair Henderson Limited/FTSE

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.

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 2011 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 2011, £15 million was drawn down at an interest rate of 1.29%.

During the year, Net Gearing ranged from 6.7% to 13.8%. At 31 March 2011, gearing was 9.3% (debt as a % of gross assets) and 10.3% (debt as a % of net assets).

Dividends

MUSCIT's primary focus is on capital growth rather than income. The Board proposes a final dividend of 6.76p per Ordinary share payable on 12 August 2011 to shareholders on the register at the close of business on 1 July 2011.

Corporate Governance

The Directors have reviewed the recommendations of the AIC Code on Corporate Governance (the "AIC Code") and have implemented procedures where appropriate, such as an annual evaluation of the Board's performance. MUSCIT has complied with the AIC Code throughout the year except where compliance would be inappropriate given the size and nature of the Company. Full disclosure of MUSCIT's compliance with the AIC Code is included in the Directors' Report. The Manager has signed up to the Stewardship Code and will be publishing its voting records on their website.

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

Directors

It was with great sadness that we record the death of Laurie Petar, who died in July 2010; he is sorely missed.

Roger Cuming remains as Senior Director and Kathryn Matthews became chairman of the Remuneration Committee and the Nomination Committee. Michael Moule was appointed chairman of the Management Engagement Committee and remains chairman of the Audit Committee.

Chairman's Comment

Economists are generally reasonably confident about the outlook for the global economy over the next two years expecting moderate growth. This comes from continued strength in the emerging world and ever more expansionary policies in the United States. In Europe, the strength of central and northern countries will more than offset the deflationary forces at play within Portugal, Italy, Ireland, Greece and Spain, the so-called PIIGS. Germany, which produces around a quarter of the output in Europe, is China's fifth largest trade partner and can barely keep up with demand. In the UK, deficit reduction efforts are bearing fruit and the Olympic Games should give a boost to the economy although growth is slow and uneven.

In 2008, many small companies, which typically are more flexible and dynamic with more entrepreneurial management, were quick to cut costs in the face of difficult times. Smaller companies are leaner and meaner than ever today, have recovered well and are generating record levels of cash and profits.

Over the past 30 years there have been four periods in the UK when corporate profits fell as a result of recession. Typically earnings declined by 25% – 35% over two or three years. Recovery periods lasted 5 – 8 years. Therefore, if history is any guide, several years of recovery in earnings lie ahead.

2011 will be a year for stockpickers. UK SmallCap offers a huge choice of over 2,000 often under researched companies which may grow faster due to their size and give investors higher returns. Typically they are niche businesses with high barriers to entry, pricing power and more motivated management often with large stakes in their own businesses.

This is an asset class that allows a Fund Manager with a large, dedicated research team and a few grey hairs to add significant value for shareholders. The exceptional returns over the past two years, while unlikely to be repeated, demonstrate why most investors should include UK SmallCap in their portfolios. UK SmallCap generates attractive returns for investors at times of economic and earnings recovery which augurs well for the next few years.

The Montanaro team has had a spectacular year and thoroughly deserves the performance fee awarded to them. This is the first time the capped performance fee has been awarded since the year ended 31 March 2007.

The Board, on behalf of the shareholders, offers its congratulations – keep it up!

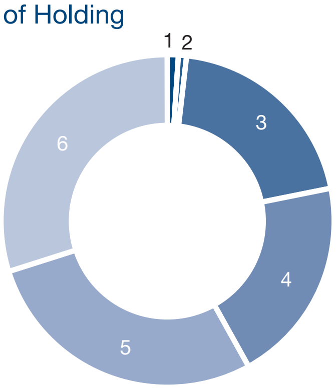
DAVID GAMBLE
Chairman
17 June 2011

Manager's Report

Highlights 2011

– Montanaro believe that we are less than half-way through a major equity Bull Market which started in April 2009.

Market Cap by Value of Holding



1	£0–£50m	1%
2	£50–£100m	1%
3	£100–£200m	20%
4	£200–£300m	20%
5	£300–£600m	28%
6	>£600m	30%

Manager's Review

2010/2011 was another good year for investors in UK SmallCap with the FTSE SmallCap (ex Investment Companies) Index increasing by 12% and the RBS Hoare Govett Small Companies Index ("RBS HGSC") by 18%. In comparison, the 39% rise in the NAV of the Fund and the 52% rise in the MUSCIT share price are pleasing.

In football parlance this was a year of "two halves". It was a year when the market oscillated between chasing risk and avoiding risk. This was particularly evident in the first half with stock market indices fluctuating by as much as 15%. The first half was dominated by concerns over euro-area sovereign risks with Portugal, Italy, Ireland, Greece and Spain (the "PIIGS") all seeing bond yields rise sharply.

To add insult to injury, Eyjafjallajökull erupted covering Europe with Icelandic volcanic ash. This led to the cancellation of flights across most of Europe. Much of the summer saw the equity market range bound. With better macro economic data in the second half of the year and a second round of Quantitative Easing (QE2) in the United States, UK SmallCap enjoyed a gain of 15% with particular strength leading up to Christmas.

During last year, growth stocks – our investment focus – outperformed value stocks significantly. Momentum investing was also a successful investment strategy (buying the "winners" of the previous year). Given Montanaro's long term investment horizons, this was helpful. Finally, a number of core holdings such Chloride, Scott Wilson and Dana Petroleum were taken over at a substantial premium.

Outlook

Montanaro believe that we are less than half-way through a major equity Bull Market which started in April 2009 when we first turned positive again. After a severe Bear Market such as we saw in 2007-2008, Bull Markets historically have lasted on average 5 – 6 years and SmallCap outperformed by 7% p.a. Market valuations are attractive and below average (notably 10% cheaper than Emerging Market equities and US equities).

We expect a significant increase in take-overs in 2011 as cash-rich buyers look at external growth to accelerate recent earnings growth. At the peak of the last cycle Montanaro benefited from the take-over of twenty holdings. SmallCap looks under-valued based on price/book measures. Private equity may well make a comeback and compete with trade buyers for targets, many of which will be small companies, bidding up prices.

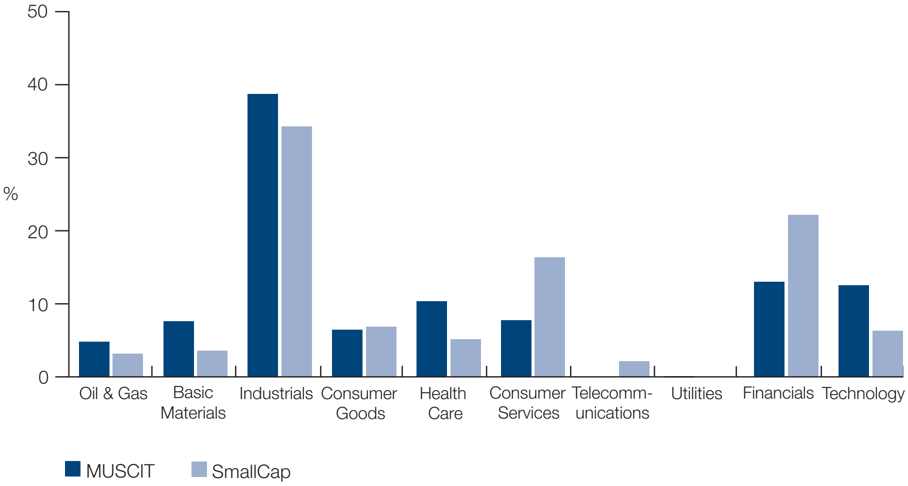
Whilst this should help sentiment, as always there are two sides to every story. We also expect an increase in profit warnings this year. Economic conditions remain challenging and it becomes ever harder to exceed expectations as the cycle matures. Companies on high valuations that disappoint will be severely punished. This is one reason why Montanaro invest in the highest quality companies at attractive valuations.

In addition, a large number of companies may be floated on the Stock Market this year which could absorb some of the cash held by investors. They will need to be of a high quality to succeed. We also see a trend of gradually rising inflation and interest rates. The challenges of the PIIGS have not been resolved and are likely to lead to further speculation about the future of the euro. Such concerns are likely to lead to greater stock market volatility than recently.

Currently, UK SmallCap is under-owned (everyone has bought bonds and Emerging Markets) and unloved (who wants to buy the UK and Europe in the middle of a PIIGS crisis?), but it is the contrarian investor who makes the money. Montanaro expect UK SmallCap to continue to outperform both MidCap and LargeCap this year. With a bit of luck and hard work, we hope to do better once again.

Montanaro Asset Management Limited
17 June 2011

Sector Distribution vs SmallCap



MUSCIT figures have been calculated to exclude cash position.

Source: Montanaro Asset Management Limited/FTSE

Ten Largest Holdings
as at 31 March 2011

29%
Portfolio

Dialight PLC
Electronic and Electrical Equipment

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

Value	Portfolio	Market Cap
£5.01m	3.3%	£237m

Brammer PLC
Support Services

A pan-European technical distributor of power transmission components.

Value	Portfolio	Market Cap
£4.75m	3.1%	£316m

SDL PLC
Software and Computer Services

Provider of software and services for managing content and language translation.

Value	Portfolio	Market Cap
£4.55m	3.0%	£508m

NCC Group PLC
Software and Computer Services

A provider of escrow solutions, assurance testing and consultancy.

Value	Portfolio	Market Cap
£4.52m	2.9%	£193m

Domino Printing Sciences PLC
Electronic and Electrical Equipment

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

Value	Portfolio	Market Cap
£4.48m	2.9%	£698m

Fenner PLC

Industrial Engineering

A world leader in reinforced polymer technology.

£4.32m	2.8%	£692m
Value	Portfolio	Market Cap

Brooks Macdonald Group PLC

General Financials

Integrated private client asset management and financial services company.

£4.24m	2.8%	£120m
Value	Portfolio	Market Cap

Devro PLC

Food Producers

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.

£4.24m	2.8%	£464m
Value	Portfolio	Market Cap

Victrex PLC

Chemicals

Manufacturer of high performance polyaryletherketones.

£4.09m	2.7%	£1,130m
Value	Portfolio	Market Cap

James Fisher & Sons PLC

Industrial Transportation

Provider of specialist marine support services and operator of tankships around UK coastal waters.

£4.01m	2.6%	£259m
Value	Portfolio	Market Cap

Investment Portfolio
as at 31 March 2011

Holding	Sector	Value £000	% of portfolio	Market cap £m
Dialight	Electronic and Electrical Equipment	5,007	3.3	237
Brammer	Support Services	4,752	3.1	316
SDL	Software and Computer Services	4,550	3.0	508
NCC Group	Software and Computer Services	4,524	2.9	193
Domino Printing Sciences	Electronic and Electrical Equipment	4,477	2.9	698
Fenner	Industrial Engineering	4,320	2.8	692
Brooks Macdonald Group	General Financials	4,237	2.8	120
Devro	Food Producers	4,237	2.8	464
Victrex	Chemicals	4,092	2.7	1,130
James Fisher	Industrial Transportation	4,014	2.6	259
Renishaw	Electronic and Electrical Equipment	3,926	2.5	1,099
Shaftesbury	Real Estate / Real Estate Investment Trusts	3,667	2.4	1,183
Latchways	Support Services	3,629	2.4	115
Ocean Wilsons Holdings	Industrial Transportation	3,524	2.3	401
Premier Oil	Oil and Gas Producers	3,489	2.3	2,321
Consort Medical	Health Care Equipment and Services	3,441	2.2	164
Domino's Pizza	Travel and Leisure	3,423	2.2	687
Helical Bar	Real Estate / Real Estate Investment Trusts	3,385	2.2	320
RPS Group	Support Services	3,207	2.1	465
Immunodiagnostics	Health Care Equipment and Services	3,169	2.1	234
Twenty Largest Holdings		**79,070**	**51.6**	
WSP Group	Support Services	3,165	2.1	232
Ricardo	Support Services	3,155	2.1	173
Dignity	General Retailers	3,132	2.0	381
Chemring Group	Aerospace and Defence	3,112	2.0	1,223
Genus	Pharmaceuticals and Biotechnology	3,092	2.0	566
Abcam	Pharmaceuticals and Biotechnology	3,054	2.0	682
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	3,023	2.0	335
Croda International	Chemicals	3,020	2.0	2,304
AG Barr	Beverages	2,878	1.9	479
Carclo	Chemicals	2,835	1.8	174
Mears Group	Support Services	2,803	1.8	207
Brewin Dolphin	General Financials	2,775	1.8	389
Aveva Group	Software and Computer Services	2,737	1.8	1,098
Enquest	Oil and Gas Producers	2,726	1.8	1,094
Severfield-Rowen	Industrial Engineering	2,716	1.8	237
Primary Health Properties	Real Estate / Real Estate Investment Trusts	2,568	1.7	219
Clarkson	Industrial Transportation	2,560	1.7	243
Albemarle & Bond Holdings	General Financials	2,446	1.6	171
Booker Group	Food and Drug Retailers	2,438	1.6	923
M.P. Evans Group	Food Producers	2,322	1.5	230
Microgen	Software and Computer Services	2,273	1.5	113
Group NBT	Software and Computer Services	1,908	1.2	105
Wilmington Group	Media	1,825	1.2	123
James Halstead	Construction and Materials	1,672	1.1	470
Kewill	Software and Computer Services	1,643	1.1	85
Marshalls	Construction and Materials	1,569	1.0	225
Aquarius Platinum	Mining	1,555	1.0	1,625
Oxford Instruments	Electronic and Electrical Equipment	1,218	0.8	351
Encore Oil	Oil and Gas Producers	1,210	0.8	322
Fidessa Group	Software and Computer Services	1,025	0.7	641
Stanley Gibbons	General Retailers	982	0.6	39
DTZ Holdings	Real Estate / Real Estate Investment Trusts	668	0.4	76
Total Portfolio		**153,175**	**100.0**	

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2011

Sector	% of portfolio	% of SmallCap
Oil and Gas Producers	4.9	2.1
Alternative Energy	–	1.4
Oil and Gas	**4.9**	**3.5**
Chemicals	6.5	0.7
Industrial Metals	–	0.4
Mining	1.0	2.8
Basic Materials	**7.5**	**3.9**
Construction and Materials	2.1	4.3
Aerospace and Defence	2.0	1.2
General Industrials	–	0.3
Electronic and Electrical Equipment	9.5	6.1
Industrial Engineering	4.6	3.4
Industrial Transportation	6.6	3.1
Support Services	13.6	16.0
Industrials	**38.4**	**34.4**
Beverages	1.9	–
Food Producers	4.3	3.5
Household Goods	–	2.3
Leisure Goods	–	0.6
Consumer Goods	**6.2**	**6.4**
Health Care Equipment and Services	4.3	1.1
Pharmaceuticals and Biotechnology	6.0	4.2
Health Care	**10.3**	**5.3**
Food and Drug Retailers	1.6	0.9
General Retailers	2.6	4.5
Media	1.2	6.0
Travel and Leisure	2.2	4.7
Consumer Services	**7.6**	**16.1**
Fixed Line Telecommunications	–	2.2
Telecommunications	**–**	**2.2**
Non-life Insurance	–	2.7
Life Insurance	–	1.5
Real Estate and Investment Services	2.6	10.4
Real Estate Investment Trusts	4.1	3.6
General Financials	6.2	3.8
Financials	**12.9**	**22.0**
Software and Computer Services	12.2	4.0
Technology Hardware and Equipment	–	2.2
Technology	**12.2**	**6.2**
Total	**100.0**	**100.0**

The investment portfolio comprises 52 listed UK equity holdings including 10 holdings totalling £23,438,000 (representing 15.3% 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.

Roger Cuming

Roger Cuming has been in the investment industry for over 35 years. He is Head of Investments for Reliance Mutual Insurance Society Limited. Appointed a Director on 5 June 2009, 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 Fidelity Asian Values Plc. She has also been appointed as a non-executive director for JP Morgan Chinese Investment Trust Plc, Religare Enterprise Limited, Conversus Capital L.P and most recently Aperam.

Michael Moule

Michael Moule formerly specialised in managing investment trusts for Henderson and Touche Remnant. Appointed as 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. He was most recently appointed as an Investment Committee member for the British Heart Foundation.

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 Chairman's Statement forms part of the Directors' Report

The Directors' present their Annual Report and financial statements for the year ended 31 March 2011.

Business Review

The Business Review has been prepared in accordance with the Companies Act 2006 and should be read in conjunction with the Chairman's Statement on pages 3 to 5 and the Manager's Report on pages 6 and 7.

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 pages 18 and 19.
- 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.

REVIEW OF THE DEVELOPMENT AND PERFORMANCE OF THE BUSINESS AND POSITION 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 pages 3 to 5 and in the Manager's Report on pages 6 and 7.

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 s1158 of the Corporation Tax Act 2010. 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 s1158 for the year ended 31 March 2010 and an application will be made to HM Revenue & Customs for MUSCIT's status as an investment trust in the financial year 2010/11. 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 Section 833 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 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.

The Company seeks to achieve its investment objective by investing in a portfolio of quoted UK small companies. At the time of initial investment, a potential investee company must be profitable and smaller than the largest constituent of the RBS HGSC Index, which represents the smallest 10% of the UK Stock Market by value. At the start of January 2011, the largest company in the RBS HGSC had a market capitalisation of over £1.4bn. The Manager focuses on the smaller end of this Index.

The Manager will normally limit any one holding to a maximum of 4% of the Company's investments. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company; smaller investments are made in less liquid companies. AIM exposure is also closely monitored by the Board and is limited to 30% of total investments, with Board approval required for exposure above 25%.

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

The Board, in consultation with the Manager, is responsible for determining the gearing strategy for 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. The Board has agreed to limit borrowings to 25% of shareholders' funds.

There are currently 33,475,958 Ordinary 10p shares in issue (2010: 33,475,958) none of which are held in Treasury (2010: nil). Holders of Ordinary shares have unrestricted voting rights of one vote per share 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 in the Chairmans' Statement. Details of MUSCIT's internal controls may be found in the Corporate Governance section on page 20.

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

Investment & Strategy: MUSCIT may underperform its benchmark as a result of poor stock selection, 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 on an annual basis.

Gearing: one of the benefits of closed-end 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 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 deals 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 fewer 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, the discount can fluctuate significantly both in absolute terms and relative to its peer group.

The Board actively monitors and seeks to manage the discount of MUSCIT and is responsible for share buy backs 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 2010 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 s1158 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 Manager which includes active and regular review of compliance with s1158. The Administrators review compliance of 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, performance data and possibly a qualified audit report and/or loss of s1158 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 s1158 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 Bank 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.

Directors' Report continued

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 Company's performance and development could result in fewer 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 and are both happy to meet with shareholders.

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 14.

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 25. The Directors recommend that a final dividend of 6.76p (2010: final 3.20p, interim 3.0p) per Ordinary share, amounting to £2,263,000 (2010: final £1,071,000, interim £1,004,000) to be paid on 12 August 2011 to shareholders on the share register at the close of business on 1 July 2011.

Net Asset Value: the NAV per Ordinary share, including revenue reserves, at 31 March 2011 was 421.65p (2010: 302.59p).

The Board reviews performance by reference to a number of KPI's and considers that the most relevant KPIs are those that communicate the financial performance and strength of the Company as a whole.

The Board and the Manager monitor the following KPIs:

- 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 1.4% in the year to 31 March 2011.

Further KPIs are those which show the Company's position in relation to the investment trust tests which it is required to meet and maintain its investment trust status.

Securities carrying voting rights

The following information is disclosed in accordance with Large and Medium-Size Companies and Groups (Accounts and Reports) Regulations 2008 and DTR 7.2.6 of the FSA Disclosure and Transparency Rules.

- The Company's capital structure and voting rights are disclosed on page 14.
- Details of the substantial shareholders in the Company are disclosed on page 20.
- The Board's current powers to buy back shares are stated on page 15 and proposals for their renewal are disclosed on page 21.
- 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.

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 is comprised of 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. A performance fee of £786,000 (2010: £nil) is payable in respect of the year ended 31 March 2011.

Termination of the management agreement is subject to 12 months notice in writing to the Company.

On termination of the management agreement in certain circumstances, the Manager will be 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 good 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 as at the date of this report along with their biographies are shown on page 12.

Directors' Beneficial and Family Interests

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

	As at 31 March 2011 No. of shares	As at 1 April 2010 No. of shares
David Gamble	10,000	10,000
Roger Cuming	5,000	–
Kathryn Matthews	1,500	–
Michael Moule	10,000	10,000

There have been no changes to the above holdings between 31 March 2011 and the date of this Annual Report. 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 the UK Corporate Governance Code, formerly 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 will provide better information to shareholders.

During the year the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance 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, 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 UK Corporate Governance Code can be obtained at: www.frc.org.uk.

Board Responsibilities

Following the retirement of Mr Jones and the resignation of Mr Petar, the Board is comprised of four non-executive Directors. The Board has considered the independent status of each Director under the AIC Guide and has determined that all with the exception of Mr Cuming are independent. 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 significant commitments other than those disclosed in his biography on page 12.

The Board has reviewed the fact that Mr Cuming is a senior member of a company that has a shareholding in the Company. 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. However the Board have agreed that Mr Cuming may not be considered independent.

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.

There were no third party indemnity provisions over the course of the year.

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 the Company's affairs. During the year ended 31 March 2011, six 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 16.

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	6	6	2	2	2	2	3	3	1	1
Roger Cuming	6	5*	2	2	2	2	1	1	1	1
Christopher Jones**	3	3	N/A	N/A	1	1	N/A	N/A	1	1
Kathryn Matthews	6	6	2	2	2	2	3	3	1	1
Michael Moule	6	6	2	2	2	2	3	3	1	1
Laurie Petar***	2	1	1	0	1	0	1	0	1	0

* Due to unavoidable travel disruption following Icelandic ash cloud.
** Retired at the Company's last AGM on 30 July 2010.
*** Resigned as a Director of the Company on 16 June 2010.

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 accounts, the 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. Mr Cuming is currently the Senior Director of MUSCIT. The Board consider that Mr Cuming is ideally suited to performing the role of Senior 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 UK Corporate Governance 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, Mr Cuming will retire by rotation at the Annual General Meeting and, being eligible, will offer himself for re-election.

Fellow Directors strongly recommend the re-election of Mr Cuming because of his strong contributions to the Company.

Performance Evaluation

The Directors conduct an annual review of Board performance and effectiveness to monitor and improve their overall performance. This process is comprised of five elements:

1. a factual report of Board Committee procedures from MUSCIT's Company Secretary;
2. a self-evaluation by each Director against specified criteria;
3. an assessment of the Chairman by each Director against specified criteria;
4. an assessment of the Directors by the Chairman against specified criteria; and
5. an assessment of the Directors' independence.

The Board evaluation process aims to provide a powerful and valuable feedback mechanism for improving Board effectiveness, maximising strengths and highlighting areas for further development.

Mr Gamble as Chairman, takes overall responsibility for the evaluation process and has selected a questionnaire methodology to achieve these objectives, which is followed by a feedback session that considers how effective the process has been and identifies any areas for improvement.

Voting Policy and Socially Responsible Investment

The Company has no employees and the Board is comprised entirely of non-executive Directors. Day-to-day management of the Company's business is undertaken by Montanaro as the Investment Manager and the Company itself has no environmental, social or community policies. In carrying out business with its suppliers the Company aims to conduct itself responsibly, ethically and fairly.

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 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 reports to the Board at every meeting 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 it considers to be socially responsible investments, when making investment decisions, but its overriding objective is to produce good investment returns for shareholders.

During the year the Manager on behalf of the Company exercised its voting authority as follows:

Meetings	
Number of meetings voted at	63
Number of meetings voted against management or abstained	1
Resolutions	
Number of resolutions where voted with management	710
Number of resolutions where voted against management or abstained	1
The actual resolutions voted against	–

Board Committees

The Chairman of each Board Committee fulfils an important leadership role similar to that of the Chairman of the Board, particularly in creating the conditions for overall Committee and individual Director effectiveness.

The Audit Committee is comprised of the three independent non-executive Directors and is chaired by Mr Moule. The Committee meets at least twice a year in conjunction with the annual and half-yearly financial results of MUSCIT. It provides a forum through which MUSCIT's Auditor reports to the Board and it also reviews the terms of appointment, remuneration, independence, objectivity and effectiveness of the Auditor on an annual basis. The Audit Committee reviews the annual and half-yearly financial reports of MUSCIT, monitors its internal controls and service providers and reviews the need for internal audit.

The Audit Committee has reviewed and accepted reports from the Auditor on their procedures for ensuring that their independence and objectivity are safeguarded. The Audit Committee reviews the need for non-audit services and authorises such on a case by case basis, having consideration to the cost-effectiveness of the services and the independence and objectivity of the Auditor. Non-audit work may be given to the external Auditor unless there is a conflict of interest or someone else is considered to have more relevant experience. The fee for non-audit services provided by the external Auditor during the period was £nil (2010: £5,000).

The Committee has advised the Board that KPMG Audit Plc has fulfilled its obligations to the Company and shareholders and on this basis recommends their reappointment as Auditors.

The Audit Committee has adopted formal written terms of reference which are available upon request from the Company Secretary and are available on the Company's website www.montanarouksmaller.co.uk.

The Remuneration Committee is comprised of the three independent non-executive Directors, with Kathryn Matthews acting as Chairman, who replaced Mr Gamble with effect from 1 December 2010. The Board considers this to be appropriate in order to maximize the collective knowledge of the Committee.

The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board. The Chairman of the Company takes no part in discussions concerning his own salary. This Committee held two meetings during the year.

The Remuneration Committee has adopted written terms of reference which are available upon request from the Company Secretary and are available on the Company's website www.montanarouksmaller.co.uk.

The Nomination Committee is comprised of the four non-executive Directors that make up the full Board and meets as required for the purpose of considering recruitment to, and removals from, the Board with Kathryn Matthews acting as Chairman, again replacing Mr Gamble with effect from 1 December 2010. Appointments to the Board are made according to a person's existing knowledge and expertise taking into account the Company's agreed strategic priorities. The Board is committed to a policy of succession planning. This Committee held one meeting during the year to consider the resignation of Mr Petar and the re-election of Directors in accordance with the Company's Articles.

As reported last year, Trust Associates, an independent outside non-executive director search agency, was engaged by the Company to identify suitable candidates prior to the appointment of Kathryn Matthews on 1 April 2010.

The Nomination Committee has adopted formal written terms of reference which are available upon request from the Company Secretary and are available on the Company's website www.montanarouksmaller.co.uk.

The Management Engagement Committee is comprised of the three independent non-executive Directors and meets at least once a year for the purpose of reviewing the terms of appointment and performance of the Manager and other service providers, with Mr Moule acting as Chairman who replaced Mr Gamble with effect from 1 December 2010. During the year the Committee held three meetings.

The Management Engagement Committee considers the performance of the Manager by comparing it to obligations imposed under the terms of the management agreement. The Committee makes recommendations to the full Board on any variations to the terms of the management agreement when they consider it necessary or desirable.

The Management Engagement Committee reflected on the Manager's excellent performance for the year ended 31 March 2011 and concluded it was in the best interests of the Company's shareholders to continue the appointment of the Manager.

The Management Engagement Committee has adopted formal written terms of reference which are available upon request from the Company Secretary and are available on the Company's website www.montanarouksmaller.co.uk.

Directors' Report continued

Mr Jones retired as a member of the Management Engagement, Remuneration and Nomination Committee at the Company's last Annual General Meeting held on 30 July 2010.

Mr Petar was a member of all the Committees until his resignation as a Director of the Company on 16 June 2010.

Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining MUSCIT's system of internal controls 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 controls 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 controls 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, operated since 1 April 2010.

- Investment management is provided by the Manager, which is regulated by the FSA. 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.

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
Derbyshire County Council	2,925,000	8.74
East Riding of Yorkshire Council	2,643,400	7.90
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
New Star Asset Management Limited	1,450,000	4.33
AEGON UK Group of Companies	1,436,374	4.16

Going Concern

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. 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.

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 2010) 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 5 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 6 at the Annual General Meeting. Purchases will be made on the open market and prices will be in accordance with the terms laid out in Resolution 6. 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 7, 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 7 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 8, subject to the passing of Resolution 7, 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 9, subject to the passing of Resolution number 8, 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.

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

Resolution 10, if passed, will allow the Directors to hold a General Meeting on not less than 14 days notice.

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
17 June 2011

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 to the Large and Medium Sized Companies and Groups (Account and Reports Regulations 2008), in respect of the year ended 31 March 2011. Ordinary Resolution 2 is being proposed to receive and approve this report at the forthcoming Annual General Meeting.

The law requires your Company's Auditor to audit the Directors' Remuneration Report. The Auditor's opinion is included in its report.

Remuneration Committee

Following the retirement of Mr Jones and the resignation of Mr Petar, the Remuneration Committee is comprised of three non-executive directors, Mr Gamble and Mr Moule, with Kathryn Matthews acting as Chairman. Kathryn Matthews replaced Mr Gamble as Chairman with effect from 1 December 2010, he remains a member of the committee.

The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board. The Chairman of the Company takes no part in discussions concerning his own salary. This Committee held two meetings during the year.

The Remuneration Committee has adopted written terms of reference which are available upon request from the Company Secretary and are available on the Company's website www.montanarouksmaller.co.uk.

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 2012.

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.

As reported in last year's report fees were increased for the first time since 2006. In addition to reflect the change in committee structure with effect from 1 October 2010 the remuneration for Mr Moule increased from £19,000 to £19,500 to reflect his additional role as Chairman of the Management Engagement Committee and Kathryn Matthews' remuneration increased from £17,000 to £18,000 to reflect her additional roles as Chairman of the Remuneration Committee and the Nomination Committee.

The Remuneration Committee has agreed to review fees on an annual basis. With effect from 1 April 2011 the Directors' fees will increase in line with RPI by £500 each and the Chairman's remuneration by £1,000. Future annual increases will be subject to an absolute positive performance of the Company.

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 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 (excluding investment companies) 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 2006)

Source: Capita Sinclair Henderson

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 2011 £	Year to 31 March 2010 £
David Gamble	**26,000**	23,000
Roger Cuming – appointed 5 June 2009	**18,000**	12,333
Kathryn Matthews – appointed 1 April 2010	**17,500**	n/a
Michael Moule	**19,250**	15,667
Christopher Jones – retired 30 July 2010	**6,333**	16,000
Laurence Petar – resigned 16 June 2010	**3,589**	15,000
Antony Hardy – retired 31 July 2009	**–**	5,333

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 17 June 2011.

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 assets, liabilities and financial position 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 comply with that law and those regulations.

The Directors, to the best of their knowledge, state that:

- the financial statements, prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and return of the Company; and
- this Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

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.

On behalf of the Board.
DAVID GAMBLE
Chairman
17 June 2011

Independent Auditor's Report
to the Members of Montanaro UK Smaller Companies Investment Trust PLC

INDEPENDENT AUDITOR'S 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 2011 set out on pages 25 to 38. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 23, 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 website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 20, in relation to going concern;
- the part of the Corporate Governance Statement on pages 17 to 20 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Salim Tharani (Senior Statutory Auditor)

for and on behalf of

KPMG Audit Plc Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
United Kingdom
17 June 2011

Income Statement
for the year to 31 March 2011

	Notes	Year to 31 March 2011 Revenue £000	Year to 31 March 2011 Capital £000	Year to 31 March 2011 Total £000	Year to 31 March 2010 Revenue £000	Year to 31 March 2010 Capital £000	Year to 31 March 2010 Total £000
Gains on investments designated as fair value through profit or loss	10	**–**	**40,006**	**40,006**	–	37,277	37,277
Dividends and interest	2	**3,639**	**–**	**3,639**	3,206	–	3,206
Management fee	3	**(688)**	**(688)**	**(1,376)**	(486)	(487)	(973)
Management performance fee	3	**–**	**(786)**	**(786)**	–	–	–
Other income	2	**–**	**–**	**–**	3	–	3
Other expenses	4	**(316)**	**–**	**(316)**	(341)	–	(341)
Net return before finance costs and taxation		**2,635**	**38,532**	**41,167**	2,382	36,790	39,172
Interest payable and similar charges	6	**(119)**	**(119)**	**(238)**	(86)	(86)	(172)
Net return before taxation		**2,516**	**38,413**	**40,929**	2,296	36,704	39,000
Taxation	7	**–**	**–**	**–**	–	–	–
Net return after taxation		**2,516**	**38,413**	**40,929**	2,296	36,704	39,000
Return per Ordinary share	9	**7.51p**	**114.75p**	**122.26p**	6.86p	109.64p	116.50p

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 29 to 38 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year to 31 March 2011

Year to 31 March 2011	Notes	**Called-up share capital £000**	**Share premium account £000**	**Capital redemption reserve £000**	**Special reserve £000**	**Capital reserve £000**	**Distributable revenue reserve £000**	**Total equity shareholders' funds £000**
As at 31 March 2010		**3,348**	**19,307**	**1,362**	**4,642**	**70,152**	**2,484**	**101,295**
Fair value movement of investments	10	**–**	**–**	**–**	**–**	**40,006**	**–**	**40,006**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(1,593)**	**–**	**(1,593)**
Dividends paid in the year	8	**–**	**–**	**–**	**–**	**–**	**(1,071)**	**(1,071)**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**2,516**	**2,516**
As at 31 March 2011		**3,348**	**19,307**	**1,362**	**4,642**	**108,565**	**3,929**	**141,153**

Year to 31 March 2010	Notes	Called-up share capital £000	Share premium account £000	Capital redemption reserve £000	Special reserve £000	Capital reserve £000	Distributable revenue reserve £000	Total equity shareholders' funds £000
As at 31 March 2009		3,348	19,307	1,362	4,642	33,448	3,485	65,592
Fair value movement of investments	10	–	–	–	–	37,277	–	37,277
Costs allocated to capital		–	–	–	–	(573)	–	(573)
Dividends paid in the year	8	–	–	–	–	–	(3,297)	(3,297)
Net revenue for the year		–	–	–	–	–	2,296	2,296
As at 31 March 2010		3,348	19,307	1,362	4,642	70,152	2,484	101,295

The notes on pages 29 to 38 form part of these financial statements.

Balance Sheet
as at 31 March 2011

	Notes	31 March 2011 £000	31 March 2011 £000	31 March 2010 £000	31 March 2010 £000
Fixed assets					
Investments designated at fair value through profit or loss	10		**153,175**		110,160
Current assets					
Debtors	12	**3,838**		341	
Cash at bank	20	**406**		2,196	
			4,244		2,537
Creditors: amounts falling due within one year					
Other creditors	13	**(1,266)**		(1,402)	
Revolving credit facility	14	**(15,000)**		(10,000)	
			(16,266)		(11,402)
Net current liabilities			**(12,022)**		(8,865)
Total assets less current liabilities			**141,153**		101,295
Net assets			**141,153**		101,295
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			**108,565**		70,152
Distributable revenue reserve			**3,929**		2,484
Total equity shareholders' funds			**141,153**		101,295
Net asset value per Ordinary share	18		**421.65p**		302.59p

These financial statements were approved by the Board of Directors on 17 June 2011.

DAVID GAMBLE MICHAEL MOULE

Company Registered Number: 3004101

The notes on pages 29 to 38 form part of these financial statements.

Statement of Cash Flows
for the year to 31 March 2011

	Notes	**Year to 31 March 2011 £000**	**Year to 31 March 2011 £000**	Year to 31 March 2010 £000	Year to 31 March 2010 £000
Operating activities					
Investment income received		**3,548**		3,136	
Deposit interest received		**1**		7	
Management fees paid		**(1,339)**		(939)	
Company secretarial fees paid		**(82)**		(80)	
Other cash expenses		**(233)**		(213)	
Net cash inflow from operating activities	19		**1,895**		1,911
Servicing of finance					
Interest and similar charges paid		**(286)**		(125)	
Net cash outflow from servicing of finance			**(286)**		(125)
Capital expenditure and financial investment					
Purchases of investments		**(54,882)**		(47,066)	
Sales of investments		**47,554**		39,606	
Net cash outflow from investing activities			**(7,328)**		(7,460)
Equity dividends paid			**(1,071)**		(3,297)
Net cash outflow before financing			**(6,790)**		(8,971)
Financing					
Proceeds of short-term credit facility		**5,000**		5,000	
Net cash inflow from financing			**5,000**		5,000
Decrease in cash	20		**(1,790)**		(3,971)

The notes on pages 29 to 38 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2011

1 Accounting Policies

ACCOUNTING CONVENTION
The financial statements are prepared on a going concern basis, 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. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year and the preceding year.

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
All expenses are accounted for on an accruals basis. 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 quoted market bid prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange 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.

Notes to the Financial Statements continued

at 31 March 2011

RESERVES

Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- net movement arising from changes in the fair value of investments that can be readily converted to cash without accepting adverse terms; and
- expenses, together with related taxation effect, charged to this account in accordance with the above policies.

Special reserve

The special reserve was created by a reduction in the share premium account by order of the High Court in August 1998. It can be used for the repurchase of the Company's Ordinary shares.

In accordance with the SORP, the consideration paid for shares bought into and held in Treasury is shown as a deduction from the special reserve.

Capital redemption reserve

The capital redemption reserve accounts for amounts by which the issued capital is diminished through the repurchase of the Company's own shares.

2 Income

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Income from investments	**3,638**	3,205
UK dividend income	**3,574**	3,167
Overseas dividend income	**64**	38
Other income		
Bank interest	**1**	1
Underwriting commission	**–**	3
Total income	**3,639**	3,209
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**3,638**	3,205
Interest from financial assets designated at fair value through profit or loss	**1**	1
Dividends and interest	**3,639**	3,206
Other income not from financial assets	**–**	3
Other income	**–**	3
	3,639	3,209

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

3 Management Fee

	Year to 31 March 2011			Year to 31 March 2010		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Management fee	**688**	**688**	**1,376**	486	487	973
Performance fee	**–**	**786**	**786**	–	–	–

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 2011, £916,000 (2010: £93,000) was due for payment to the Manager.

4 Other Expenses

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Administration and company secretarial fees	**82**	80
Auditor's remuneration (also see * below) for:		
– audit	**18**	24
– other services to the Company	**–**	5
Other expenses (including Directors' remuneration and VAT)	**216**	232
	316	341

* Total fees paid to the Auditor for the year, all of which were charged to revenue, comprised:		
Audit services		
– statutory audit	**18**	24
Tax services		
– compliance services	**–**	5
	18	29

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 2011 £000	Year to 31 March 2010 £000
Total fees	**91**	87

A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 22.

The Company has no employees.

6 Interest Payable and Similar Charges

	Year to 31 March 2011			Year to 31 March 2010		
Financial liabilities not at fair value through profit or loss	**Revenue £000**	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Interest payable on loan	**119**	**119**	**238**	86	86	172
	119	**119**	**238**	86	86	172

7 Taxation

The current taxation for the year is lower than the standard rate of corporation tax in the UK of 28% (2010: 28%). A reconciliation is provided below:

	Year to 31 March 2011			Year to 31 March 2010		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Return on ordinary activities before taxation	**2,516**	**38,413**	**40,929**	2,296	36,704	39,000
Theoretical corporation tax at 28% (2010: 28%)	**704**	**10,756**	**11,460**	643	10,277	10,920
Effects of:						
– capital gains that are not taxable	**–**	**(11,202)**	**(11,202)**	–	(10,438)	(10,438)
– overseas dividend income not liable to corporation tax	**(18)**	**–**	**(18)**	(11)	–	(11)
– UK dividend income not liable to corporation tax	**(1,001)**	**–**	**(1,001)**	(887)	–	(887)
– expenses disallowed for taxation purposes	**1**	**–**	**1**	8	–	8
– excess management expenses	**314**	**446**	**760**	247	161	408
	–	**–**	**–**	–	–	–

At 31 March 2011, the Company had surplus management expenses and non-trade losses of £24,761,775 (2010: £22,025,508), 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.

Notes to the Financial Statements continued

at 31 March 2011

7 Taxation continued

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 2011 £000	Year to 31 March 2010 £000
Paid		
2010 Final dividend of 3.20p (2009: 6.85p*) per Ordinary share	**1,071**	2,293
Interim dividend paid of nil p per Ordinary share (2010: 3.00p)	**–**	1,004
Proposed		
2011 Final dividend of 6.76p (2010: 3.20p) per Ordinary share	**2,263**	1,071

* Including a non-recurring element of 1.99p.

9 Return per Ordinary Share

	Year to 31 March 2011			Year to 31 March 2010		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**7.51p**	**114.75p**	**122.26p**	6.86p	109.64p	116.50p

Revenue return per Ordinary share is based on the net revenue after taxation of £2,516,000 (2010: £2,296,000) and 33,475,958 (2010: 33,475,958) 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 £38,413,000 (2010: £36,704,000), and on 33,475,958 (2010: 33,475,958) 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 2011 £000	Year to 31 March 2010 £000
Total investments at fair value	**153,175**	110,160

The investment portfolio comprises 52 listed UK equity holdings including 10 holdings totalling £23,438,000 (representing 15% of the portfolio) traded on the Alternative Investment Market ("AIM").

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Opening book cost	**94,272**	80,990
Opening investment holding gains/(losses)	**15,888**	(16,783)
Opening valuation	**110,160**	64,207
Movements in the year		
Purchases at cost	**53,969**	41,644
Sales – proceeds	**(50,960)**	(32,968)
Sales – realised gains on sales	**8,466**	4,606
Increase in investment holding gains	**31,540**	32,671
Closing valuation	**153,175**	110,160
Closing book cost	**105,747**	94,272
Closing investment holding gains	**47,428**	15,888
	153,175	110,160

10 Investments continued

FAIR VALUE HIERARCHY

In accordance with FRS 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).

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 measured at fair value through profit and loss fall into level 1, being valued at quoted prices in active markets.

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £349,000 (2010: £246,000) and £90,000 (2010: £62,000) on purchases and sales of investments, respectively. These amounts are deducted in determining gains on investments at fair value as disclosed in the Income Statement.

	31 March 2011 £000	31 March 2010 £000
Net gains on investments at fair value though profit or loss		
Gains on sales	**8,466**	4,606
Changes in fair value	**31,540**	32,671
	40,006	37,277

A list of the investments by market value and an analysis of the investment portfolio by industrial or commercial sector are set on pages 10 and 11.

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 financial statements in the following investments:

Security	% of voting rights
Brooks Macdonald Group plc	3.5
Latchways PLC	3.2

12 Debtors

	31 March 2011 £000	31 March 2010 £000
Due from brokers	**3,406**	–
Prepayments and accrued income	**9**	8
Dividends receivable	**423**	333
	3,838	341

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

Notes to the Financial Statements continued

at 31 March 2011

	31 March 2011 £000	31 March 2010 £000
Due to brokers	**277**	1,190
Accruals and deferred income	**989**	212
	1,266	1,402

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.

14 Revolving Credit Facility

	31 March 2011 £000	31 March 2010 £000
Falling due within one year	**15,000**	10,000
Falling due after more than one year	**–**	–
	15,000	10,000

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

As at 31 March 2011, £15,000,000 was drawn down (31 March 2010: £10,000,000), all of which has a fixed interest rate of 1.29%* until 16 May 2011. On 16 May 2011 the £15,000,000 loan was rolled over until 16 June 2011 at a fixed interest rate of 1.23228%*.

On 16 June 2011 the £15,000,000 loan was rolled over until 16 August 2011 at a fixed interest rate of 1.30935%*. It is the Board's intention to continue to roll over the loan on a short-term basis until the facility expiration date of 24 November 2011.

* Including margin and mandatory costs.

15 Share Capital

	31 March 2011 £000	31 March 2010 £000
Allotted, called-up and fully paid:		
33,475,958 (2010: 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 30 July 2010 the Company was granted the authority to purchase 5,018,046 Ordinary shares. As at 31 March 2011 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 objective, 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 previously 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.

18 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £141,153,000 (2010: £101,295,000) and on 33,475,958 (2010: 33,475,958) Ordinary shares, being the number of Ordinary shares in issue at the year end.

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

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Net revenue before finance costs and taxation	**2,635**	2,382
Management fee charged to capital	**(1,474)**	(487)
Increase in creditors	**825**	40
Increase in prepayments and accrued income	**(91)**	(24)
Net cash inflow from operating activities	**1,895**	1,911

20 Reconciliation of Net Cash Flows to Movements in Net Debt

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Decrease in cash in year	**(1,790)**	(3,971)
Proceeds of credit facility	**(5,000)**	(5,000)
Movement in net funds	**(6,790)**	(8,971)
Net (debt)/cash at beginning of year	**(7,804)**	1,167
Net debt at end of year	**(14,594)**	(7,804)

ANALYSIS OF NET DEBT

	1 April 2010 £000	Cash flows £000	**31 March 2011 £000**
Cash at bank	2,196	(1,790)	**406**
Debt due in less than one year	(10,000)	(5,000)	**(15,000)**
	(7,804)	(6,790)	**(14,594)**

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 risk, 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.

Notes to the Financial Statements continued
at 31 March 2011

21 Analysis of Financial Assets and Liabilities continued

(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.

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 2011 was:

	31 March 2011 £000	31 March 2010 £000
Cash at bank	**406**	2,196
Debtors and prepayments	**3,838**	341
	4,244	2,537

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 objective shown on page 39 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 policy. 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 fair value as detailed in note 1. A list of the Company's equity investments is given on page 10. 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 10 largest equity investments is set out on pages 8 and 9.

The maximum exposure to market price risk is the fair value of investments of £153,175,000 (2010: £110,160,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2011 it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £1,532,000 (2010: £1,102,000). 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.

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 (2010: £1,000).

21 Analysis of Financial Assets and Liabilities continued

The interest risk profile of the Company is given below.

If interest rates had reduced by 1% from those paid as at 31 March 2011 it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £150,000 (2010: £100,000). 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, short-term deposits and the revolving credit facility as at 31 March 2011 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.

(iv) Liquidity Risk
Liquidity risk 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 £4.2 million cash at bank and short-term debtors 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
The Company's financial assets consist of listed equity shares, which neither pay interest nor have a maturity date, cash at bank and short-term debtors. No fixed interest assets were held at 31 March 2011 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 2011 is as follows:

	Total £000	**Weighted average interest rate %**	**Period until maturity Years**
Amounts drawn down under fixed revolving credit facility	**15,000**	**1.6052**	**0.13**
Financial liabilities upon which no interest is paid	**1,266**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2010 was 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 maturity profile of the Company's financial liabilities is as follows:

	As at 31 March 2011 £000	As at 31 March 2010 £000
In one year or less	**16,266**	11,402
In more than one but not more than two years	**–**	–
In more than two years but not more than five years	**–**	–
	16,266	11,402

The Company had £nil undrawn under the fixed Revolving Credit Facility at 31 March 2011 (2010: £5,000,000).

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.

Notes to the Financial Statements continued

at 31 March 2011

22 Capital Management Policies

The objective of the Company is to achieve capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and to achieve relative outperformance of its benchmark, the FTSE SmallCap (excluding Investment Companies) Index. No unquoted investments are permitted. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buyback share capital within limits set by the shareholders in general meeting; borrow monies in accordance with the Articles of Association and pay dividends to shareholders out of distributable revenue reserves.

Changes to Ordinary share capital are set out in note 15 on page 34. Dividend payments are set out in note 8 on page 32.

	31 March 2011 £000	31 March 2010 £000
Called-up share capital	**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	**108,565**	70,152
Distributable revenue reserve	**3,929**	2,484
Total equity shareholders' funds	**141,153**	101,295

The Company's objectives for managing capital are the same as the previous year and have been complied with throughout the year.

23 Previous Commitments and Contingent Liabilities

At 31 March 2011, there were no capital commitments (2010: nil).

24 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 RBS HGSC Index, which represents the smallest 10% of the UK Stock Market by value. At the start of 2011, this was any company below £1.4 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 4% of the Company's investments. The portfolio weighting of each investment is closely monitored to 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, pricing power, 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 £15 million was drawn as at 31 March 2011. The Board has agreed to limit borrowings to 25% of shareholders' funds.

Benchmark
FTSE SmallCap (excluding Iinvestment Companies) Index ("SmallCap").

Gross Assets
£157,419,000 as at 31 March 2011.

Shareholders' Funds
£141,153,000 as at 31 March 2011.

Market Capitalisation
£118,840,000 as at 31 March 2011.

Capital Structure
As at 31 March 2011 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 can 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 16.

Administration and Company Secretarial Fees
The Company Secretary receives an annual fee of £82,000, 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/Premium
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.

S1158
Section 1158 Corporation Tax Act 2010.

TER
Total Expense Ratio, the ratio of the Company's expenses (excluding performance fees and interest payable) to its average monthly 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.montanarouksmaller.co.uk.

Key Dates

31 March 2011	Company year end
June 2011	Annual results
29 June 2011	Ex-dividend
29 July 2011	Annual General Meeting
12 August 2011	Dividend payable
November 2011	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.

Notice of Annual General Meeting

Notice is hereby given that the Sixteenth 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, 29 July 2011 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 2011.

RESOLUTION 2 – ORDINARY RESOLUTION
To receive and, if thought fit, to receive and accept the Directors' Remuneration Report for the year ended 31 March 2011.

RESOLUTION 3 – ORDINARY RESOLUTION
To declare a final dividend of 6.76p per Ordinary share for the year ended 31 March 2011.

RESOLUTION 4 – ORDINARY RESOLUTION
To re-elect Roger Cuming as a Director of the Company.

RESOLUTION 5 – 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 6 – 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 2003;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2012 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 7 – 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 8 – SPECIAL RESOLUTION

THAT, subject to the passing of Resolution 7 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 7 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 7, by way of a rights issue only):

(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 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 9 – SPECIAL RESOLUTION

That, subject to the passing of Resolution 8 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 8 set out above.

Notice of Annual General Meeting continued

RESOLUTION 10 – SPECIAL RESOLUTION
THAT a General Meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By Order of the Board

CAPITA SINCLAIR HENDERSON LIMITED
Company Secretary
17 June 2011

Registered Office:
Beaufort House
51 New North Road
Exeter EX4 4EP

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/she 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 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 16 June 2011 (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 16 June 2011 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 27 July 2011 (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 corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Notice of Annual General Meeting continued

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 from 10 am until the conclusion of the meeting:

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

(b) a copy of the 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 16 June 2011 (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 Sixteenth 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).

For the following number of shares [ ]

as my/our proxy to vote for me/us on my/our behalf at the Sixteenth Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on 29 July 2011 at 12 noon and at any adjournment thereof.

Signature ____________________

Dated ____________________ 2011

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 2011.			
RESOLUTION 2	To receive the Directors' Remuneration Report for the year ended 31 March 2011.			
RESOLUTION 3	To declare a final dividend of 6.76p per Ordinary share for the year ended 31 March 2011.			
RESOLUTION 4	To re-elect Roger Cuming as a Director of the Company.			
RESOLUTION 5	To re-appoint KPMG Audit Plc as Auditor and to authorise the Directors to determine their remuneration.			
RESOLUTION 6	That the Company be authorised to make market purchases of up to 5,018,046 (or if less, 14.99%) of its Ordinary shares.			
RESOLUTION 7	To allot relevant securities in accordance with Section 551 of the Companies Act 2006.			
RESOLUTION 8	To allot relevant securities for cash and to disapply pre-emption rights, in accordance with Sections 570 and 573 of the Companies Act 2006.			
RESOLUTION 9	To issue shares held in Treasury at a discount to net asset value.			
RESOLUTION 10	To hold a General Meeting on not less than 14 clear days' notice.			

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 if calling within the United Kingdom or +44 20 8639 3399 if calling from outside the United Kingdom. Lines are open 8:30am – 5:30pm Mon–Fri. Calls to the helpline from within the United Kingdom cost 10 pence per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the helpline from outside the United Kingdom will be charged at applicable international rates. Calls may be recorded and monitored for security and training purposes. 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.

Montanaro UK Smaller Companies Investment Trust PLC
53 Threadneedle Street
London EC2R 8AR

Tel: 020 7448 8600
Fax: 020 7448 8601
E-mail: enquiries@montanaro.co.uk
Website: www.montanarouksmaller.co.uk