MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2012

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.

Contents

Highlights
for the year ended 31 March 2012

Results

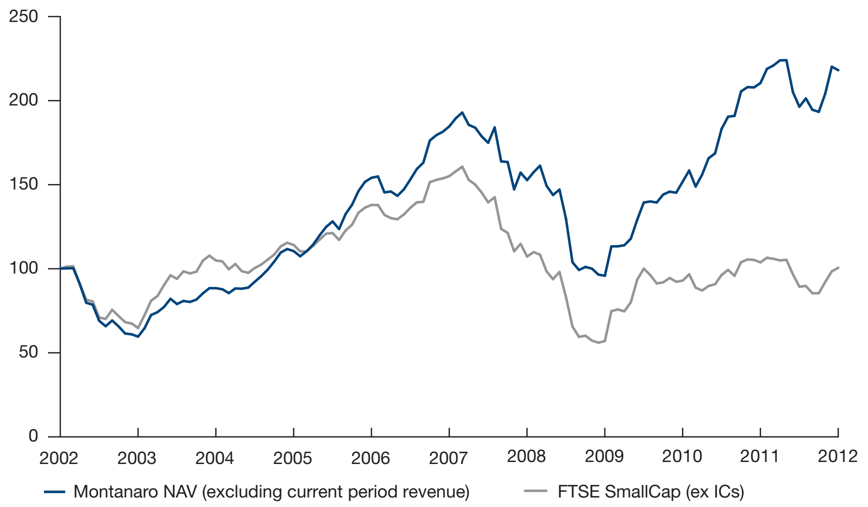
> NAV	+4%	£146m
> Gross assets	+4%	£163m
> Share price	–2%	£116m*
> FTSE SmallCap Index	–3%**	

* Market capitalisation.
** Excluding Investment Companies.

	Year to 31 March 2012	Year to 31 March 2011
Revenue return on ordinary activities (£000)	2,480	2,516
Movement in capital reserve (£000)	4,778	38,413
Revenue return per Ordinary share	7.41p	7.51p
Dividend per Ordinary share	6.76p	6.76p
Total return per Ordinary share	21.68p	122.26p

	As at 31 March 2012	As at 31 March 2011
Ordinary share price	348.00p	355.00p
NAV per Ordinary share	436.57p	421.65p

NAV Performance vs SmallCap



Source: Montanaro Asset Management Limited/FTSE

Chairman's Statement

For over 20 years, Montanaro has delivered consistent outperformance across different market conditions. I believe that investors can look forward to the future of MUSCIT with confidence.

Background
I am pleased to present the 17th 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 £146 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
The NAV of MUSCIT at 31 March 2012 increased in the year by 4% to 436.57p, by 118% over ten years and by 335% since launch. In comparison the SmallCap fell 3% in the year, moved by 0% over ten years and has gained 50% since launch.

Since launch the NAV of MUSCIT has outperformed the SmallCap by 285%.

Discount
The discount of MUSCIT's share price to NAV stood at 20.3% on 31 March 2012 in comparison with a weighted sector average of 16.2% (source: Close Wins Investment Trusts).

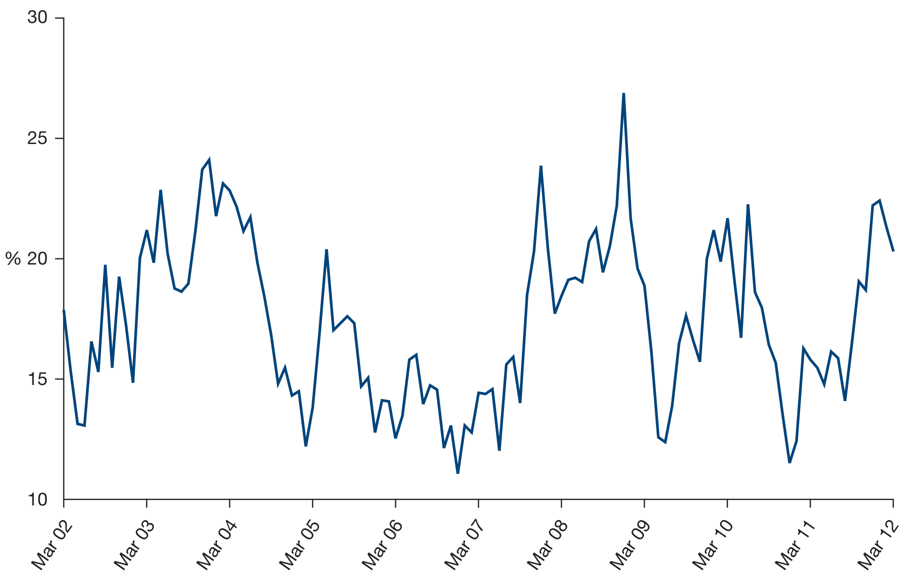
Share Buy Backs
The Board is responsible for share buy backs which are undertaken at arm's length from the Manager.

No shares were bought back during the year.

Highlights 2012

- In the year to 31 March 2012, the NAV of MUSCIT increased by 4% to 436.57p in comparison with a 3% fall in the SmallCap.
- Since launch, the NAV of MUSCIT has increased by 335% in comparison with a gain of 50% in the SmallCap outperforming by 285%.

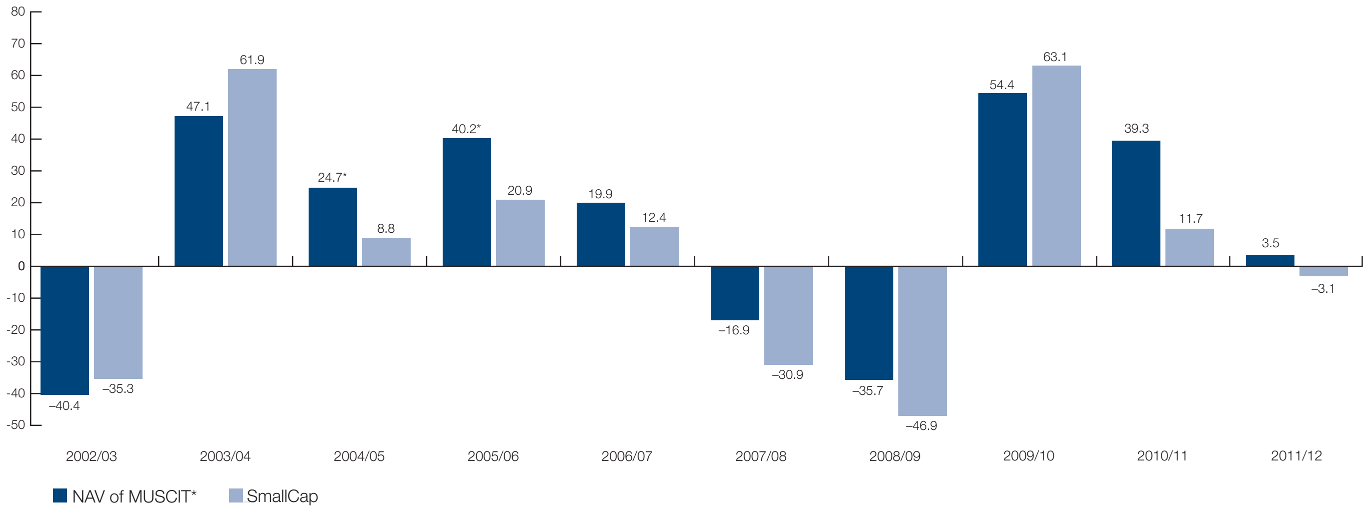
Share Price Discount to NAV



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 had 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.

As at 31 March 2012 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.

On 19 December 2011 the Company entered into a new £15 million revolving credit facility with ING Bank. The facility is available for a term of five years until 19 December 2016. At the same time the Company entered into an interest rate swap effectively fixing the interest rate at 4.29% for the life of the facility. At 31 March 2012, £15 million was drawn down.

During the year, Net Gearing ranged from 1.0% to 11.1%. At 31 March 2012, net gearing was 0.9% (debt as a % of gross assets) and 1.0% (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 10 August 2012 to shareholders on the register at the close of business on 29 June 2012.

The Board has observed the changes to the taxation rules and the Companies Act that now permit the distribution of realised capital reserves as dividends. At this years' Annual General Meeting we are seeking Shareholder approval to amend the Company's Articles to reflect these changes. It is not the intention to change the Company's current dividend policy but could provide flexibility for dividends in the future.

Directors

In the year to 31 March 2012 there have been no changes to the structure of the Board.

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 has published 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.

Chairman's Comment

Institutional investors have spent much of the last decade remodelling their balance sheets to reduce risk. The average pension fund in the UK is approximately 47% invested in equities, down from around 70% a decade ago (source: Mercer), while the average insurer has cut its equity exposure to 34% from 46% (source: IMF). The same observation can be made for regulated financial institutions all across Europe where equities were swapped for the safety of bonds and credit. Pension scheme sponsors have tried to match their liabilities through LDI ("liability-driven investment") as defined benefit schemes have closed. Perhaps more importantly, sweeping regulatory changes (Basel III and Solvency II in particular) are being introduced at arguably the worst possible time.

But in March 2012 the world watched with horror as Greece's default (euphemistically called "restructuring") – the first of a developed country since World War II – shattered the very notion that bonds are a "risk-free" asset class. Other countries may well follow suit and cost investors dear – Greece alone has wiped out over €100bn in creditors' wealth. It is a cruel irony of history that a number of sovereign bonds rated "A" or better may have morphed into ticking time-bombs.

In the same vein, conventional wisdom has it that large companies are safer than small companies. Yet the list of casualties amongst larger companies since 2001 is long – think of Enron, WorldCom, Parmalat, General Motors, Lehman Brothers and RBS, to name a few. Investors lured to the safety of UK LargeCap have underperformed SmallCap by over 3% a year since 2000.

Current events may lead investors to eventually reappraise the meaning of "equity risk". Equities are attractive on most valuation metrics – the last time the FTSE All-Share yielded close to 3% and more than the 10-year Gilt was at the depth of the crisis following the collapse of Lehman Brothers. Companies have rarely had so much cash at hand and are receiving further stimulus through a gradual reduction of the corporation tax rate. At the end of March, over 70% of companies in MUSCIT had a net cash position and a weighted net debt-to-equity ratio of under 10%. Most companies in the portfolio have lived through economic and financial turmoil before and many have a habit of emerging stronger from these trying periods.

With a universe of over 2,000 quoted companies to choose from, experienced and well-resourced SmallCap managers such as Montanaro are able to construct portfolios of businesses with low fundamental risk characteristics. For over 20 years, Montanaro has delivered consistent outperformance across different market conditions. The iron rule of "quality first" underpinning the team's investment process should reassure investors in these uncertain times. I believe that investors can look forward to the future of MUSCIT with confidence.

In future, the Company's investments will be managed on a day-to-day basis by David Lindley supported by George Cooke. Charles Montanaro will continue to provide oversight and strategic guidance to the portfolio. Given the team approach of Montanaro Asset Management, it is not anticipated that there will be any change in the investment style and approach of the Manager.

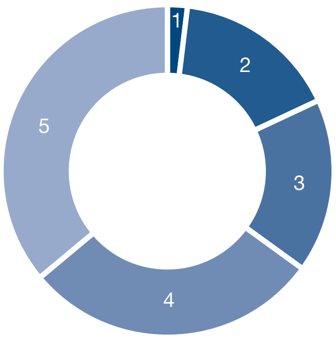
DAVID GAMBLE
Chairman
20 June 2012

Manager's Report

Highlights 2012

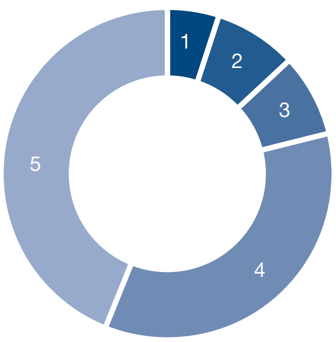
- The Company is well-positioned to benefit from an increased appetite for the highest quality "blue-chip" quoted small companies. We look forward to the coming year with cautious optimism after an encouraging start.

Market Cap by Value of Holding



1	£50–£100m	2%
2	£100–£200m	16%
3	£200–£300m	17%
4	£300–£600m	29%
5	>£600m	36%

Index by Value of Holding



1	Other UK equities	5%
2	UK AIM	8%
3	FTSE Fledgling	8%
4	FTSE 250	35%
5	FTSE SmallCap	44%

Manager's Review

After a strong performance in 2010, it was always going to be asking a lot for a repeat in 2011. As it happens, in a volatile year returns proved to be modest all round – the FTSE SmallCap (ex Investment Companies) index fell by 3%; the FTSE All-Share declined by 2%; whereas the Company's NAV showed a positive return, increasing by 4%.

After the buoyant end to 2010, equities came under pressure early in the year due to several concerns, some quite unexpected. Political turmoil in North Africa and the Middle East led to increases in oil prices which, coupled with rising food prices, raised the spectre of rising inflation. A devastating 8.8 magnitude earthquake hit the North East of Japan causing a tsunami that resulted in a disruption of component supplies to the electronic and automotive industries. Equities declined significantly during the summer period as investors became worried about economic growth prospects in the United States and as the European debt crisis intensified.

In August, there were signs of investor panic over the possibility of a default by Greece. After a difficult third quarter, the market rallied on hopes that the European Summit held in December had finally laid the foundations for a future fiscal union. Markets reasoned that, once Germany had imposed its fiscal rulebook to its single currency partners, moral hazard concerns would dissipate and justify a larger scale intervention by the ECB in bond markets. Meanwhile, signs that inflation was decelerating in Emerging Markets, and in China in particular, opened the door to monetary policy easing after nearly two years of tightening. China cut its required reserve ratio by 50bp in December 2011.

As investors reduced "risk" by selling UK equities in the second half of 2011, in general portfolio managers at the start of 2012 were defensively positioned with higher than normal levels of cash. Many investors were both underweight in equities and UK SmallCap in particular. As a result, investors were wrong-footed by the strong January 2012 rally and scrambled to catch up, driving share prices ever higher. Many cyclical companies saw their shares return to 2011 highs. However, even after this recovery, UK SmallCap continues to trade on valuation multiples in line with historical averages.

As the Company's Investment Manager, we are always looking ahead seeking to anticipate market sentiment and positioning the portfolio accordingly. The Board determines levels of gearing following recommendation from us. In 2011, we closed the calendar year with one of the highest levels of borrowing ever and were heavily overweight in cyclicals. This was a contrarian position and one that has been vindicated subsequently in 2012. The recent strong recovery in the UK stock market has allowed us to reduce borrowings considerably and to lock-in some profits.

Outlook

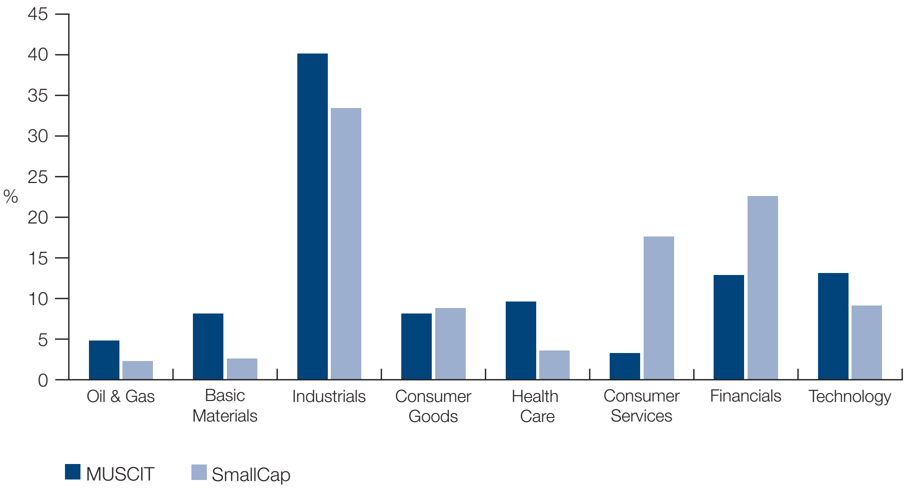
Companies around the world are sitting on large cash balances earning negative real returns. So we expect there to be increasing pressure to either invest or return some of this cash to investors. In addition, we see room for M&A activity to gather momentum as large firms seek external growth (acquisitions) to offset slowing earnings growth. Private equity transactions may also increase in the Small and MidCap sector.

In the context of elevated macro-economic and political uncertainty surrounding the Euro, we expect further outperformance of "quality growth" i.e. well-managed companies offering secure earnings growth and good revenue visibility. However, with politicians in the driving seat everywhere and important elections this year, we would not be surprised to see stock market volatility return. Balance sheet strength remains crucial and needs to be watched. Banks will lend but, ironically, mainly to the strong companies which need financing the least. We will not compromise on quality in selecting investments within the portfolio.

The Company is well-positioned to benefit from an increased appetite for the highest quality "blue-chip" quoted small companies. We look forward to the coming year with cautious optimism after an encouraging start.

Montanaro Asset Management Limited
20 June 2012

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 2012

32%
Portfolio

Victrex PLC

Chemicals

Manufacturer of high performance plastics.

£5.40m	3.6%	£1,139m
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.

£5.12m	3.5%	£506m
Value	Portfolio	Market Cap

Genus PLC

Pharmaceuticals and Biotechnology

Genus is a world leader in applying science to animal breeding creating advances through biotechnology and selling added value products for livestock farming and food producers.

£5.10m	3.4%	£769m
Value	Portfolio	Market Cap

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.

£5.06m	3.4%	£293m
Value	Portfolio	Market Cap

Brammer PLC

Support Services

A pan-European technical distributor of power transmission components

£4.96m	3.3%	£398m
Value	Portfolio	Market Cap

NCC Group PLC

Software and Computer Services

A provider of Escrow Solutions, Assurance Testing and Consultancy.

£4.50m	3.0%	£309m
Value	Portfolio	Market Cap

Domino Printing Sciences PLC

Electronic and Electrical Equipment

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

£4.46m	3.0%	£620m
Value	Portfolio	Market Cap

EnQuest PLC

Oil and Gas Producers

EnQuest is an independent oil & gas development and production company with a geographic focus on the United Kingdom Continental Shelf

£4.41m	3.0%	£1,012m
Value	Portfolio	Market Cap

Fenner PLC

Industrial Engineering

A world leader in reinforced polymer technology.

£4.34m	2.9%	£838m
Value	Portfolio	Market Cap

SDL PLC

Software and Computer Services

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

£4.26m	2.9%	£588m
Value	Portfolio	Market Cap

Investment Portfolio
as at 31 March 2012

Holding	Sector	Value £000	% of portfolio	Market cap £m
Victrex	Chemicals	5,400	3.6	1,139
Devro	Food Producers	5,120	3.5	506
Genus	Pharmaceuticals and Biotechnology	5,100	3.4	769
Dialight	Electronic and Electrical Equipment	5,060	3.4	293
Brammer	Support Services	4,964	3.3	398
NCC Group	Software and Computer Services	4,500	3.0	309
Domino Printing Sciences	Electronic and Electrical Equipment	4,464	3.0	620
EnQuest	Oil and Gas Producers	4,413	3.0	1,012
Fenner	Industrial Engineering	4,335	2.9	838
SDL	Software and Computer Services	4,264	2.9	588
Oxford Instruments	Electronic and Electrical Equipment	4,252	2.9	682
James Fisher	Industrial Transportation	4,172	2.8	298
RPS Group	Support Services	4,149	2.8	519
Fidessa Group	Software and Computer Services	4,137	2.8	613
Dignity	General Financials	4,060	2.7	445
AG Barr	Beverages	3,992	2.7	460
Consort Medical	Health Care Equipment and Services	3,825	2.6	182
Shaftesbury	Real Estate / Real Estate Investment Trusts	3,817	2.6	1,237
Latchways	Support Services	3,692	2.5	118
Croda International	Chemicals	3,685	2.5	2,849
Twenty Largest Holdings		**87,401**	**58.9**	
Domino's Pizza	Travel and Leisure	3,669	2.5	701
Brewin Dolphin	General Financials	3,540	2.4	438
Ocean Wilson Holdings	Industrial Transportation	3,525	2.4	415
Ricardo	Support Services	3,368	2.3	186
Renishaw	Electronic and Electrical Equipment	3,325	2.2	968
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	3,301	2.2	327
Mears Group	Support Services	3,194	2.2	223
Aveva Group	Software and Computer Services	2,983	2.0	1,127
Carclo	Chemicals	2,869	1.9	229
M.P. Evans Group	Food Producers	2,850	1.9	257
Premier Oil	Oil and Gas Producers	2,746	1.9	2,075
Helical Bar	Real Estate / Real Estate Investment Trusts	2,369	1.6	224
Clarkson	Industrial Transportation	2,301	1.5	250
Brooks Macdonald Group	General Financials	2,297	1.5	142
WSP Group	Support Services	2,281	1.5	162
James Halstead	Construction and Materials	2,273	1.5	521
Microgen	Software and Computer Services	2,183	1.5	119
Primary Health Properties	Real Estate / Real Estate Investment Trusts	1,899	1.3	216
Severfield-Rowen	Industrial Engineering	1,815	1.2	161
Kewill	Software and Computer Services	1,328	0.9	69
Albemarle & Bond Holdings	General Financials	1,309	0.9	194
Marshalls	Construction and Materials	1,281	0.9	194
Wilmington Group	Media	1,208	0.8	81
Abcam	Pharmaceuticals and Biotechnology	1,047	0.7	641
Andor Technology	Electronic and Electrical Equipment	1,020	0.7	156
Immunodiagnostics	Health Care Equipment and Services	991	0.7	87
Total Portfolio		**148,373**	**100.0**	

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2012

Sector	% of portfolio	% of SmallCap
Oil and Gas Producers	4.8	2.3
Oil And Gas	**4.8**	**2.3**
Chemicals	8.1	1.0
Industrial Metals	–	0.3
Mining	–	1.3
Basic Materials	**8.1**	**2.6**
Construction and Materials	2.4	4.9
Aerospace and Defence	–	1.2
Electronic and Electrical Equipment	12.2	5.5
Industrial Engineering	4.1	3.6
Industrial Transportation	6.8	3.1
Support Services	14.6	15.1
Industrials	**40.1**	**33.4**
Automobiles and Parts	–	0.3
Beverages	2.7	–
Food Producers	5.4	5.0
Household Goods	–	2.2
Leisure Goods	–	0.7
Other	–	0.6
Consumer Goods	**8.1**	**8.8**
Health Care Equipment and Services	3.2	1.3
Pharmaceuticals and Biotechnology	6.4	2.3
Health Care	**9.6**	**3.6**
General Retailers	–	4.2
Media	0.8	5.4
Travel and Leisure	2.5	8.0
Consumer Services	**3.3**	**17.6**
Life and Non-life Insurance	–	2.5
Real Estate	5.4	16.7
General Financials	7.5	3.4
Financials	**12.9**	**22.6**
Software and Computer Services	13.1	6.2
Technology Hardware and Equipment	–	2.9
Technology	**13.1**	**9.1**
Total	**100.0**	**100.0**

The investment portfolio comprises 46 listed UK equity holdings including 7 holdings totalling £11,786,000 (representing 7.9% 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 and Dunedin Enterprise Investment Trust PLC, a non-executive director of IBM Pension Trustees Limited, Vencap International PLC, Polar Capital Technology 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.

Kathryn Matthews

Kathryn Matthews was appointed on 1 April 2010, Kathryn has worked in the investment management industry since 1981. Formerly, 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, Conversus Capital L.P and 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 chairman of Polar Capital Technology Trust PLC, a non-executive director of The European Investment Trust PLC and is a member of the investment committee of the British Heart Foundation.

Principal Advisers

Manager
MONTANARO ASSET MANAGEMENT LIMITED
53 Threadneedle Street
London EC2R 8AR
Tel: 020 7448 8600
Fax: 020 7448 8601
www.montanarouksmaller.co.uk
info@montanaro.co.uk

Company Secretary, Administrator and Registered Office
CAPITA SINCLAIR HENDERSON LIMITED
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel: 01392 412 122
Fax: 01392 253 282

Registrars
CAPITA REGISTRARS
Shareholder Services Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300
(calls will cost 10p per minute plus network charges)
Fax: 020 639 2342
ssd@capitaregistrars.com
www.capitaregistrars.com

Bankers
HSBC INTERNATIONAL
PO Box 181
27-32 Poultry
London EC2P 2BX

ING BANK N.V.
London Branch
60 London Wall
London EC2M 5TQ

Auditor
KPMG AUDIT PLC
100 Temple Street
Bristol BS1 6AG

Solicitors
NORTON ROSE LLP
3 More London Riverside
London SE1 2AQ

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 2012.

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 16 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 s1158/1159 of the Corporation Tax Act 2010 ("s1158/1159"). 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 2011 and an application will be made to HM Revenue & Customs for MUSCIT's status as an investment trust in the financial year 2011/12. 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.

New rules were introduced by HM Revenue and Customs for accounting periods beginning on or after 1 January 2012 and will therefore be applicable to the Company in its year commencing on 1 April 2012. The significant changes are to remove the maximum holding in any one investment of 15% and replace this with a risk diversification approach. The Board have considered this and agreed that the Company's Investment Policy offers suitable risk diversification. In addition in future the Company will be required to distribute a minimum of 85% of all its income as dividend payments compared to the current requirement of 85% of eligible investment income.

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 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.

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 Numis Smaller Companies Index ("NSCI"), formerly RBS HGSC, which represents the smallest 10% of the UK Stock Market by value. At the start of January 2012, the largest company in the Numis Smaller Companies Index had a market capitalisation of over £1.3 billion. 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%. At 31 March 2012 this was 7.9% (2011: 15.3%)

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.

SHARE CAPITAL

There are currently 33,475,958 Ordinary 10p shares in issue (2011: 33,475,958) none of which are held in Treasury (2011: 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 Chairman's 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. The Board agreed with the Manager to take out a five year borrowing commitment to December 2016. The Board monitors and discusses with the Manager the appropriate level of gearing for the portfolio and whether the cash balances held are appropriate.

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 investment 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 2011 to make market purchases of up to 5,018,046 Ordinary shares. No Ordinary shares are currently held in Treasury.

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

Regulatory: a breach of s1158/1159 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 s1158/1159 and compliance with the Company's published Investment Policy. During the year under review the Administrator reviewed compliance with 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 s1158/1159 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 s1158/1159 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.

Directors' Report continued

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 at each Board meeting.

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.

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 its continuing existence 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 (2011: final 6.76p) per Ordinary share, amounting to £2,263,000 (2011: final £2,263,000) be paid on 10 August 2012 to shareholders on the share register at the close of business on 29 June 2012.

Net Asset Value: the NAV per Ordinary share, including revenue reserves, at 31 March 2012 was 436.57p (2011: 421.65p).

The Board reviews performance by reference to a number of KPIs 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 the previous ten years and since launch relative to the benchmark as disclosed in the Chairman's Statement;
- the level of discount over the previous ten years as disclosed in the Chairman's Statement; and
- the Ongoing Charges which were:

	2012	2011
Ongoing Charges	1.3%	1.4%
Performance fees	0.6%	0.6%
Finance costs	0.2%	0.2%
Total Ongoing Charges plus performance fees and finance costs	2.1%	2.2%

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.

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.

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, adjusted for dividends paid, 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 and adjusted for dividends subsequently paid): (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 2011, 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 414.89p (after adjusting for dividends subsequently paid of 6.76p). A performance fee of £812,000 (2011: £786,000) is payable in respect of the year ended 31 March 2012.

Termination of the management agreement is subject to 12 months notice in writing by either party.

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 is 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 2012 No. of shares	As at 1 April 2011 No. of shares
David Gamble	10,000	10,000
Roger Cuming	5,000	5,000
Kathryn Matthews	1,500	1,500
Michael Moule	10,000	10,000

There have been no changes to the above holdings between 31 March 2012 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, 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 where compliance would be inappropriate given the size and nature of the Company.

As set out in the AIC Guide accompanying the AIC Code, the Board considers that the UK Code's recommendations with respect to the role of the chief executive, executive directors' remuneration (there are no executive directors) and the need for an internal audit function (not considered necessary given the inherent segregation of duties and internal controls) are not relevant to the Company's circumstances as an externally managed investment trust. The Company has therefore not reported further in respect of these provisions.

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. The structure of the Board is such that it is considered unnecessary to identify a Senior Independent non-executive Director.

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

Throughout the year, the Board 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. Mr Moule as chairman and Mr Gamble as a non-executive director, sit on the Board 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.

Directors' Report continued

Attendance at Board and Committee meetings

	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	1	1	4	4	1	1
Roger Cuming	6	6	N/A	N/A	N/A	N/A	N/A	N/A	1	1
Kathryn Matthews	6	6	2	2	1	1	4	3	1	1
Michael Moule	6	6	2	2	1	1	4	4	1	1

Additional Management Engagement Committee meetings were held during the year to consider the new Administration and Company Secretarial contract, Kathryn Matthews was unable to attend one meeting arranged at short notice

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 2012, six Board meetings were held, one of which was a full-day session devoted entirely to reviewing strategic matters.

Other than their letters of appointment, 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. These letters of appointment are available for inspection on request to the Company Secretary. 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 pages 16 and 17.

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.

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, all 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.

A Chairman stepping down from that role will be capable of continuing to serve as a Director.

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

Fellow Directors recommend the re-election of Mr Moule because of his knowledge, expertise and contribution 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 six 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;

5. an assessment of the Directors' independence; and

6. an assessment of any required training.

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.

Stewardship Code

The Company has given discretionary voting powers to the Manager. 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 and the Board reviews a full list of all votes cast on the Company's behalf. 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	49
Number of meetings voted against management or abstained	17
Resolutions	
Number of resolutions where voted with management	689
Number of resolutions where voted against management or abstained	27
The actual resolutions voted against	8

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.

Each 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 Audit Committee is comprised of the three independent non-executive Directors and is chaired by Mr Moule. The Board is satisfied that Mr Moule has recent and relevant financial experience to guide the Committee in its deliberations.

One of the principal responsibilities of the Committee is the monitoring of the process of production and integrity of the Company's accounts. The Committee also reviews and monitors the internal control and risk management of systems. 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 of 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. No non-audit services were provided in the year under review.

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

The Remuneration Committee is comprised of the three independent non-executive Directors, with Kathryn Matthews acting as Chairman. 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 one meeting during the year.

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. Led by the Independent Directors, 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.

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. During the year the Committee held four meetings to discuss and raise any issues concerning the proposed changes to the Capita Administration and Company Secretarial contract.

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 keep the performance of the Investment Manager under review. Based on the Manager's excellent performance for the year ended 31 March 2012 the Committee concluded it was in the best interests of the Company's shareholders to continue the appointment of the Manager.

Directors' Report continued

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 2011.

- 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 defines 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

Communication with shareholders is given a high priority by both the Board and the Investment Manager. The Directors are always available to enter into dialogue with shareholders and have a policy of regularly inviting major shareholders to meet with the Board. Shareholders wishing to communicate directly with the Board should contact the Company Secretary at the registered office.

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. The Investment Manager has signed up to the Stewardship Code and will be publishing its voting records on their website.

Substantial Shareholdings

As at 31 March 2012, MUSCIT has been informed of the following notifiable interests in its voting rights:

Beneficial owner	Ordinary shares	% of voting rights
Derbyshire County Council	2,925,000	8.74
East Riding of Yorkshire Council	2,743,400	8.20
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
Royal London Asset Management Limited	1,534,839	4.58
Henderson Global Investors	1,450,000	4.33
AEGON UK Group of Companies	1,436,374	4.29
City of Bradford Metropolitan District Council	1,083,500	3.24

At the date of this report the Company has been advised that Newton Investment Management Limited has an interest in 1,661,565 shares, representing 4.96% of voting rights.

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, this policy will continue for future years. No invoices received by MUSCIT prior to the Balance Sheet date (or 31 March 2011) 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 the 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. 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 £1,115,865, representing 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 £334,759, representing 10% of the issued Ordinary shares and at a price above net asset value per share, without having to offer such shares to existing shareholders in proportion to their existing holdings.

The authority for the above resolutions will expire at the conclusion of the Company's next Annual General Meeting after the passing of the above resolutions.

Resolution number 9, subject to the passing of Resolution number 8, will give the Directors the general authority to sell shares held in Treasury at a discount to net asset value, up to the same aggregate nominal amount of £334,759 representing 10% of the issued Ordinary shares. Any shares 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 amend the Company's Articles to permit the realised Capital Reserve to be used to make dividend payments. This follows the change to the Investment Trust tax rules in January 2012 and a change to the Companies Act 2006 in April 2012. The Regulations removed the requirement that the articles of association of an investment company must prohibit the distribution of capital profits. The new Articles of Association reflect this change and no longer prohibit the distribution of capital profits by way of dividend. The Board does not intend to change its current dividend policy but proposes the change to provide flexibility in the future and to ensure that the Company's Articles reflect current legislation.

Resolution 11, if passed, will allow the Directors to hold a General Meeting, other than an Annual General Meeting on a minimum of 14 clear days notice. The notice period for Annual General Meetings will remain at 21 clear days. The Directors will only call General Meetings on 14 clear days notice where they consider it in the best interests of the shareholders to do so and the relevant matter required to be dealt with expediently.

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
20 June 2012

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 2012. Ordinary Resolution 2 is being proposed to receive and approve this report at the forthcoming Annual General Meeting.

The Company's Auditors are required to audit certain disclosures provided in this report. Where disclosures have been audited, they are indicated in this Report. The Auditors' opinion is included in their Audit Report on page 24.

Remuneration Committee

The Remuneration Committee is comprised of three non-executive directors, Mr Gamble and Mr Moule, with Kathryn Matthews acting as Chairman.

The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board. Each Director of the Company takes no part in discussions concerning their own salary. This Committee held one meeting during the year.

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 2013 and subsequent years.

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 at this time.

As reported last year the Remuneration Committee has agreed to review fees on an annual basis. Annual increases are subject to an increase in the net assets and share price of the Company and reference will be made to the RPI and peer group to determine the level of increase. No increase will be applied for the year ending 31 March 2013.

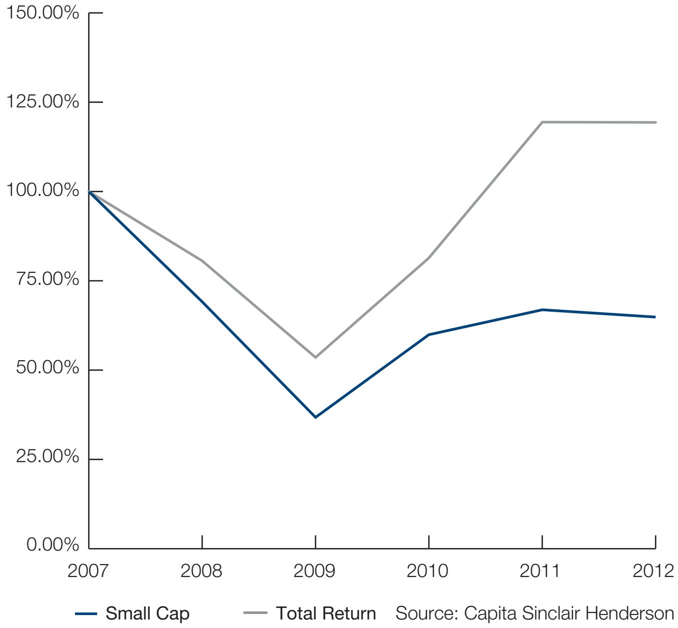
Directors' Service Contracts

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 of the FTSE SmallCap (excluding investment companies). 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 2007)



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 2012 £	Year to 31 March 2011 £
David Gamble	**27,000**	26,000
Roger Cuming	**19,500**	18,000
Kathryn Matthews	**18,500**	17,500
Michael Moule	**20,000**	19,250

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 20 June 2012.

On behalf of the Board
DAVID GAMBLE
Chairman

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

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

The Directors confirm to the best of their knowledge:

- 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
- the Chairman's Statement, Investment Manager's Report and the Directors' 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 principle risks and uncertainties that it faces.

On behalf of the Board
DAVID GAMBLE
Chairman
20 June 2012

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 2012 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 auditor

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, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 2012 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 UK Corporate Governance 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
20 June 2012

Income Statement
for the year to 31 March 2012

	Notes	**Year to 31 March 2012** Revenue £000	Capital £000	Total £000	Year to 31 March 2011 Revenue £000	Capital £000	Total £000
Gains on investments designated as fair value through profit or loss	10	**–**	**6,607**	**6,607**	–	40,006	40,006
Dividends and interest	2	**3,667**	**–**	**3,667**	3,639	–	3,639
Management fee	3	**(781)**	**(782)**	**(1,563)**	(688)	(688)	(1,376)
Management performance fee	3	**–**	**(812)**	**(812)**	–	(786)	(786)
Other expenses	4	**(246)**	**–**	**(246)**	(316)	–	(316)
Movement in fair value of derivative financial instruments	15	**–**	**(75)**	**(75)**	–	–	–
Net return before finance costs and taxation		**2,640**	**4,938**	**7,578**	2,635	38,532	41,167
Interest payable and similar charges	6	**(160)**	**(160)**	**(320)**	(119)	(119)	(238)
Net return before taxation		**2,480**	**4,778**	**7,258**	2,516	38,413	40,929
Taxation	7	**–**	**–**	**–**	–	–	–
Net return after taxation		**2,480**	**4,778**	**7,258**	2,516	38,413	40,929
Return per Ordinary share	9	**7.41p**	**14.27p**	**21.68p**	7.51p	114.75p	122.26p

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 2012

Year to 31 March 2012	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 2011		**3,348**	**19,307**	**1,362**	**4,642**	**108,565**	**3,929**	**141,153**
Fair value movement of investments	10	**–**	**–**	**–**	**–**	**6,607**	**–**	**6,607**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(1,754)**	**–**	**(1,754)**
Dividends paid in the year	8	**–**	**–**	**–**	**–**	**–**	**(2,263)**	**(2,263)**
Movement in fair value of derivative financial instruments	15	**–**	**–**	**–**	**–**	**(75)**	**–**	**(75)**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**2,480**	**2,480**
As at 31 March 2012		**3,348**	**19,307**	**1,362**	**4,642**	**113,343**	**4,146**	**146,148**

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

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

Balance Sheet
as at 31 March 2012

	Notes	31 March 2012 £000	31 March 2012 £000	31 March 2011 £000	31 March 2011 £000
Fixed assets					
Investments designated at fair value through profit or loss	10		**148,373**		153,175
Current assets					
Debtors	12	**566**		3,838	
Cash at bank	21	**13,966**		406	
			14,532		4,244
Creditors: amounts falling due within one year					
Other creditors	13	**(1,682)**		(1,266)	
Revolving credit facility	14	**(15,000)**		(15,000)	
			(16,682)		(16,266)
Net current liabilities			**(2,150)**		(12,022)
Total assets less current liabilities			**146,223**		141,153
Creditors: amounts falling due after more than one year					
Interest rate swap	15		**(75)**		–
Net assets			**146,148**		141,153
Share capital and reserves					
Called-up share capital	16		**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			**113,343**		108,565
Distributable revenue reserve			**4,146**		3,929
Total equity shareholders' funds			**146,148**		141,153
Net asset value per Ordinary share	19		**436.57p**		421.65p

These financial statements were approved by the Board of Directors on 20 June 2012.

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 2012

	Notes	Year to 31 March 2012 £000	Year to 31 March 2012 £000	Year to 31 March 2011 £000	Year to 31 March 2011 £000
Operating activities					
Investment income received		**3,600**		3,548	
Deposit interest received		**1**		1	
Interest received on VAT reclaimed on administration and company secretarial fees		**7**		–	
Management fees paid		**(1,558)**		(1,339)	
Performance fees paid		**(786)**		–	
Company secretarial fees paid		**(86)**		(82)	
Other cash expenses		**(216)**		(233)	
Net cash inflow from operating activities	20		**962**		1,895
Servicing of finance					
Interest and similar charges paid		**(148)**		(286)	
Net cash outflow from servicing of finance			**(148)**		(286)
Capital expenditure and financial investment					
Purchases of investments		**(26,508)**		(54,882)	
Sales of investments		**41,517**		47,554	
Net cash inflow/(outflow) from investing activities			**15,009**		(7,328)
Equity dividends paid			**(2,263)**		(1,071)
Net cash inflow/(outflow) before financing			**13,560**		(6,790)
Financing					
Proceeds of short-term credit facility		**–**		5,000	
Net cash inflow from financing			**–**		5,000
Increase/(decrease) in cash	21		**13,560**		(1,790)

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

Notes to the Financial Statements
at 31 March 2012

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

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.

DERIVATIVE FINANCIAL INSTRUMENTS
It is the Company's policy not to trade in derivative financial instruments. However, the Company has utilised an interest rate swap to mitigate its exposure to interest rate changes on its bank loan which is subject to a variable rate of interest. Details can be found in note 15.

Derivatives are recognised at fair value. Movement in the fair value of the derivative is recognised in the Income Statement.

Notes to the Financial Statements continued
at 31 March 2012

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;
- net movement from changes in the fair value of derivative financial instruments; 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 2012 £000	Year to 31 March 2011 £000
Income from investments	**3,659**	3,638
UK dividend income	**3,550**	3,574
Overseas dividend income	**109**	64
Other income		
Bank interest	**1**	1
Interest received on VAT reclaimed on administration and company secretarial fees	**7**	–
Total income	**3,667**	3,639
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**3,659**	3,638
Interest from financial assets designated at fair value through profit or loss	**1**	1
Dividends and interest	**3,660**	3,639
Other income not from financial assets	**7**	–
	3,667	3,639

3 Management Fee

	Year to 31 March 2012			Year to 31 March 2011		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Management fee	**781**	**782**	**1,563**	688	688	1,376
Performance fee	**–**	**812**	**812**	–	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 on pages 16 and 17.

At 31 March 2012, £947,000 (2011: £916,000) was due for payment to the Manager.

4 Other Expenses

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Administration and company secretarial fees	**86**	82
VAT reclaimed on administration and company secretarial fees	**(53)**	–
Auditor's remuneration (also see * below) for:		
– audit	**20**	18
Other expenses (including Directors' remuneration and VAT)	**193**	216
	246	316

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

Audit services		
– statutory audit	**19**	17
– expenses	**1**	1
	20	18

5 Directors' Remuneration

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Total fees	**85**	91

A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 22. The fees for the year ending 31 March 2011 include £10,000 paid to Directors who retired during the year ending 31 March 2011.

The Company has no employees.

6 Interest Payable and Similar Charges

	Year to 31 March 2012			Year to 31 March 2011		
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	**160**	**160**	**320**	119	119	238
	160	**160**	**320**	119	119	238

7 Taxation

The current taxation for the year is lower than the standard rate of corporation tax in the UK of 26% (2011: 28%). A reconciliation is provided below:

	Year to 31 March 2012			Year to 31 March 2011		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Return on ordinary activities before taxation	**2,480**	**4,778**	**7,258**	2,516	38,413	40,929
Theoretical corporation tax at 26% (2011: 28%)	**645**	**1,242**	**1,887**	704	10,756	11,460
Effects of:						
– capital gains that are not taxable	**–**	**(1,698)**	**(1,698)**	–	(11,202)	(11,202)
– overseas dividend income not liable to corporation tax	**(28)**	**–**	**(28)**	(18)	–	(18)
– UK dividend income not liable to corporation tax	**(901)**	**–**	**(901)**	(1,001)	–	(1,001)
– expenses disallowed for taxation purposes	**1**	**–**	**1**	1	–	1
– excess management expenses	**283**	**456**	**739**	314	446	760
	–	**–**	**–**	–	–	–

At 31 March 2012, the Company had surplus management expenses and non-trade losses of £27,605,536 (2011: £24,761,775), 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 2012

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 2012 £000	Year to 31 March 2011 £000
Paid		
2011 Final dividend of 6.76p (2010: 3.20p) per Ordinary share	**2,263**	1,071
Proposed		
2012 Final dividend of 6.76p (2011: 6.76p) per Ordinary share	**2,263**	2,263

9 Return per Ordinary Share

	Year to 31 March 2012			Year to 31 March 2011		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**7.41p**	**14.27p**	**21.68p**	7.51p	114.75p	122.26p

Revenue return per Ordinary share is based on the net revenue after taxation of £2,480,000 (2011: £2,516,000) and 33,475,958 (2011: 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 £4,778,000 (2011: £38,413,000), and on 33,475,958 (2011: 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 2012 £000	Year to 31 March 2011 £000
Total investments at fair value	**148,373**	153,175

The investment portfolio comprises 46 listed UK equity holdings including 7 holdings totalling £11,786,000 (representing 7.9% of the portfolio) traded on the Alternative Investment Market ("AIM").

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Opening book cost	**105,747**	94,272
Opening investment holding gains	**47,428**	15,888
Opening valuation	**153,175**	110,160
Movements in the year		
Purchases at cost	**26,702**	53,969
Sales – proceeds	**(38,111)**	(50,960)
Sales – realised gains on sales	**9,606**	8,466
(Decrease)/increase in investment holding gains	**(2,999)**	31,540
Closing valuation	**148,373**	153,175
Closing book cost	**103,944**	105,747
Closing investment holding gains	**44,429**	47,428
	148,373	153,175

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.

The table below sets out fair value measurements of financial assets in accordance with the FRS 29 fair value hierarchy system:

		31 March 2012			31 March 2011	
	Level 1 £000	**Level 2 £000**	**Total £000**	Level 1 £000	Level 2 £000	Total £000
Equity investments	**148,373**	**–**	**148,373**	153,175	–	153,175
	148,373	**–**	**148,373**	153,175	–	153,175

The table below sets out fair value measurements of financial liabilities in accordance with the FRS 29 fair value hierarchy system:

		31 March 2012			31 March 2011	
	Level 1 £000	**Level 2 £000**	**Total £000**	Level 1 £000	Level 2 £000	Total £000
Derivative financial instruments	**–**	**75**	**75**	–	–	–
	–	**75**	**75**	–	–	–

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £177,000 (2011: £349,000) and £51,000 (2011: £90,000) 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 2012 £000	31 March 2011 £000
Net gains on investments at fair value though profit or loss		
Gains on sales	**9,606**	8,466
Changes in fair value	**(2,999)**	31,540
	6,607	40,006

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.

Notes to the Financial Statements continued
at 31 March 2012

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
Latchways PLC	3.1

12 Debtors

	31 March 2012 £000	31 March 2011 £000
Due from brokers	**–**	3,406
Prepayments and accrued income	**84**	9
Dividends receivable	**482**	423
	566	3,838

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

13 Other Creditors

	31 March 2012 £000	31 March 2011 £000
Due to brokers	**471**	277
Accruals and deferred income	**1,211**	989
	1,682	1,266

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 2012 £000	31 March 2011 £000
Falling due within one year	**15,000**	15,000
	15,000	15,000

On 19 December 2011 the Company agreed a new £15,000,000 Floating Rate Revolving Credit Loan Facility with ING Bank N.V. which replaced its existing £15,000,000 Revolving Credit Facility with ING Bank N.V. At the same time the Company entered into a £15,000,000 Interest Rate Swap with ING Bank N.V.

The new Floating Rate Revolving Credit Loan Facility is available for a five year term from 19 December 2011 to 19 December 2016. The loan was drawn down until 19 June 2012 and will be rolled over on a six monthly basis. Interest is payable at six month LIBOR plus a margin and MLA costs.

The Interest Rate Swap is for five years and enables the Company to fix the effective interest rate of the £15,000,000 loan over its term at 4.2921%* per annum.

* Including margin and mandatory costs.

15 Derivative Financial Instruments
An interest rate swap is an agreement between two parties to exchange fixed and floating rate interest payments based upon interest rates defined in the contract without the exchange of the underlying principal amounts.

The Company entered into an agreement on 19 December 2011 which swapped its obligation to pay variable rates of interest for a fixed rate of 4.2921% per annum until 19 December 2016.

The fair value of the derivative financial investment is shown below:

	31 March 2012 £000	31 March 2011 £000
Opening valuation	–	–
Movement in fair value	(75)	–
Closing valuation	**(75)**	–

16 Share Capital

	31 March 2012 £000	31 March 2011 £000
Allotted, called-up and fully paid:		
33,475,958 (2011: 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 29 July 2011 the Company was granted the authority to purchase 5,018,046 Ordinary shares. As at 31 March 2012 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.

17 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.

18 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.

19 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £146,148,000 (2011: £141,153,000) and on 33,475,958 (2011: 33,475,958) Ordinary shares, being the number of Ordinary shares in issue at the year end.

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

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Net revenue before finance costs and taxation	**2,640**	2,635
Management fee charged to capital	**(1,594)**	(1,474)
Increase in creditors	**49**	825
Increase in prepayments and accrued income	**(133)**	(91)
Net cash inflow from operating activities	**962**	1,895

21 Reconciliation of Net Cash Flows to Movements in Net Debt

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Increase/(decrease) in cash in year	**13,560**	(1,790)
Proceeds of credit facility	**–**	(5,000)
Movement in net funds	**13,560**	(6,790)
Net debt at beginning of year	**(14,594)**	(7,804)
Net debt at end of year	**(1,034)**	(14,594)

ANALYSIS OF NET DEBT

	1 April 2011 £000	Cash flows £000	**31 March 2012 £000**
Cash at bank	406	13,560	**13,966**
Debt due in less than one year	(15,000)	–	**(15,000)**
	(14,594)	13,560	**(1,034)**

Notes to the Financial Statements continued
at 31 March 2012

22 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.

(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 2012 was:

	31 March 2012 £000	31 March 2011 £000
Cash at bank	**13,966**	406
Debtors and prepayments	**566**	3,838
	14,532	4,244

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.

22 Analysis of Financial Assets and Liabilities continued

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 £148,373,000 (2011: £153,175,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2012 it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £1,484,000 (2011: £1,532,000). 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 floating 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 the use of an interest rate swap to fix the interest rates on borrowings.

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 (2011: £1,000).

The interest risk profile of the Company is given below.

If interest rates had reduced by 1% from those paid as at 31 March 2012 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 (2011: £150,000). If there was an increase in interest rates of 1% the net revenue return before taxation on an annualised basis would have decreased by £10,000 (2011: £150,000). The calculations are based on cash at bank, short-term deposits and the revolving credit facility as at 31 March 2012 and these may not be representative of the year as a whole.

Due to the structure 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. The Manager reviews the portfolio liquidity on a regular basis. Short-term flexibility is achieved through the use of bank borrowings. Liquidity risk is mitigated by the fact that the Company has £14.5 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 the Company's policy not to trade in derivative financial instruments. However, the Company has utilised an interest rate swap to mitigate its exposure to interest rate changes on its revolving credit facility.

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 2012 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 2012 is as follows:

	Total £000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under revolving credit facility	**15,000**	**3.96**	**0.22**
Derivative financial instruments	**75**	**0.33**	**4.22**
Financial liabilities upon which no interest is paid	**1,682**	**–**	**–**

Notes to the Financial Statements continued

at 31 March 2012

22 Analysis of Financial Assets and Liabilities continued

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2011 was as follows:

	Total £000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under fixed revolving credit facility	15,000	1.61	0.13
Financial liabilities upon which no interest is paid	1,266	–	–

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

	As at 31 March 2012 £000	As at 31 March 2011 £000
In one year or less	**16,682**	16,266
In more than one but not more than two years	**–**	–
In more than two years but not more than five years	**75**	–
	16,757	16,266

The Company had £nil undrawn under the fixed Revolving Credit Facility at 31 March 2012 (2011: £nil).

The Company's 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.

23 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 16 on page 35. Dividend payments are set out in note 8 on page 32.

	31 March 2012 £000	31 March 2011 £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	**113,343**	108,565
Distributable revenue reserve	**4,146**	3,929
Total equity shareholders' funds	**146,148**	141,153

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

24 Previous Commitments and Contingent Liabilities

At 31 March 2012, there were nil capital commitments (2011: nil).

25 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 NSCI, which represents the smallest 10% of the UK Stock Market by value. At the start of 2012, this was any company below £1.3 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 2012. The Board has agreed to limit borrowings to 25% of shareholders' funds.

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

Gross Assets
£162,905,000 as at 31 March 2012.

Shareholders' Funds
£146,148,000 as at 31 March 2012.

Market Capitalisation
£116,496,000 as at 31 March 2012.

Capital Structure
As at 31 March 2012 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 pages 16 and 17.

Administration and Company Secretarial Fees
The Company Secretary receives an annual fee of £86,000, 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

Articles
Articles of Associations of the Company being its Constitutional Documents.

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.

S1158/1159
Section 1158/1159 Corporation Tax Act 2010.

Ongoing Charges (formerly TER)
Ongoing Charges, the Company's expenses (excluding performance fees and interest payable) expressed as a percentage of its average monthly Net Assets.

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 2012	Company year end
June 2012	Annual results
27 June 2012	Ex-dividend
27 July 2012	Annual General Meeting
10 August 2012	Dividend payable
November 2012	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.

ISA Status

The Company is fully eligible for inclusion in ISAs.

AIC

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

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares in Montanaro UK Smaller Companies Investment Trust PLC, please forward this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of Annual General Meeting

Notice is hereby given that the Seventeenth 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, 27 July 2012 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 2012.

RESOLUTION 2 – ORDINARY RESOLUTION
To receive and, if thought fit, to receive and accept the Directors' Remuneration Report for the year ended 31 March 2012.

RESOLUTION 3 – ORDINARY RESOLUTION
To declare a final dividend of 6.76p per Ordinary share for the year ended 31 March 2012.

RESOLUTION 4 – ORDINARY RESOLUTION
To re-elect Michael Moule 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 Stabilisation Regulation 2003;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2013 or, if earlier, on the expiry of 15 months from the passing of this Resolution, unless such authority is renewed prior to such time; and

(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.

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

RESOLUTION 11 – 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
20 June 2012

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, PXS, 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 19 June 2012 (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 19 June 2012 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 25 July 2012 (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, and at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AE, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting:

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

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

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

Note 11: 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 Seventeenth 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 Seventeenth Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Friday 27 July 2012 at 12 noon and at any adjournment thereof.

Signature ______________________________

Dated ______________________________ 2012

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 2012.			
RESOLUTION 2	To receive the Directors' Remuneration Report for the year ended 31 March 2012.			
RESOLUTION 3	To declare a final dividend of 6.76p per Ordinary share for the year ended 31 March 2012.			
RESOLUTION 4	To re-elect Michael Moule 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 amend the Company's Articles of Association.			
RESOLUTION 11	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 UK or +44 20 8639 3399 if calling from outside the UK. Lines are open 8:30am – 5:30pm Monday–Friday. Calls to the helpline from within the UK cost 10p per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the helpline from outside the UK 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, PXS, 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.

Produced by **Capita Financial Desktop Publishing**
Telephone 01392 477500   www.capitafinancial.com

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