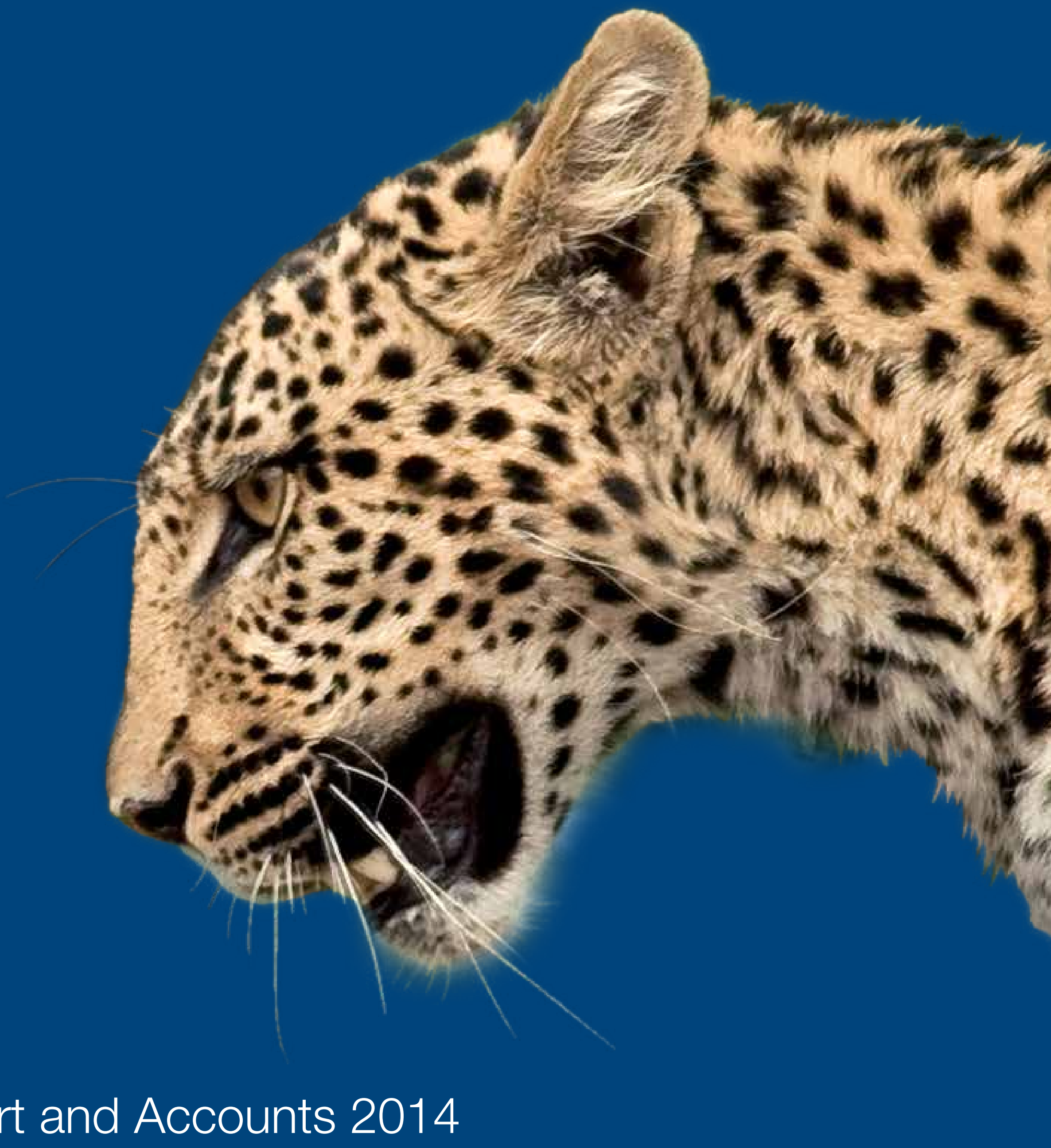
MONTANARO

UK Smaller Companies Investment Trust PLC



Annual Report and Accounts 2014

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

Current 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 Numis Smaller Companies Index (excluding Investment Companies) ("NSCI"). No unquoted investments are permitted.

Contents

Highlights
for the year ended 31 March 2014

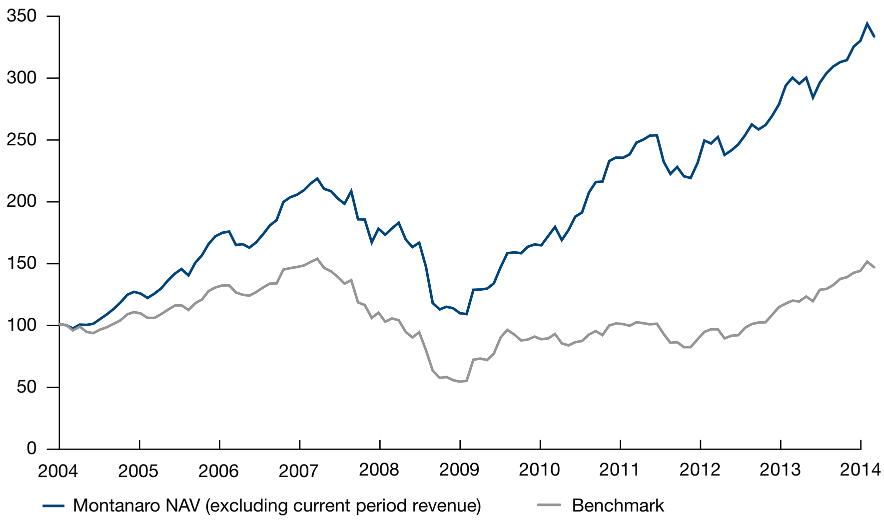
Results

• Net Asset Value ("NAV")	+11%	£197m
• NAV (excluding current period revenue)	+11%*	£194m
• Gross assets	+10%	£213m
• Share price	+16%	£169m**
• Numis Smaller Companies Index***	+23%†	

* Calculated using AIC guidelines.
** Market capitalisation.
*** Excluding Investment Companies.
† Capital only.

	Year to 31 March 2014	Year to 31 March 2013
Revenue return on ordinary activities (£'000)	2,625	2,350
Movement in capital reserve (£'000)	19,399	30,916
Revenue return per Ordinary share	7.84p	7.02p
Dividend per Ordinary share	7.50p	6.76p
Total return per Ordinary share	65.79p	99.37p
	As at 31 March 2014	**As at 31 March 2013**
Ordinary share price	505.50p	437.00p
NAV per Ordinary share	588.22p	529.19p
NAV (excluding current period revenue) per Ordinary share	580.38p	522.17p

NAV Performance vs Benchmark*



Source: Montanaro Asset Management Limited/FTSE/NSCI

* Previous benchmark of FTSE SmallCap (excluding investment companies) to 31 March 2013 and NSCI from 1 April 2013.

Strategic Report

The Strategic Report has been prepared in accordance with Section 414A of the Companies Act 2006 ("the Act"). Its purpose is to inform members of the Company and help them to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of shareholders.

Chairman's Statement

Results

For my first year as Chairman I am pleased to report a double digit increase in our net asset value and share price to all time high levels in what has been a very broad based revaluation for mid and smaller companies in most developed markets. In the UK this was reflected by a capital return for our benchmark (NSCI) of 22.7% versus 5.2% for the All-Share Index. On this basis the Board has decided to increase the dividend by 10.9% in line with increased earnings. I am, however, most disappointed that our geared portfolio has not provided better results versus the benchmark and the peer group. It has been a deeply frustrating year for our Investment Manager, whose distinct quality growth style has been eclipsed by a market favouring value and recovery stocks.

Overview

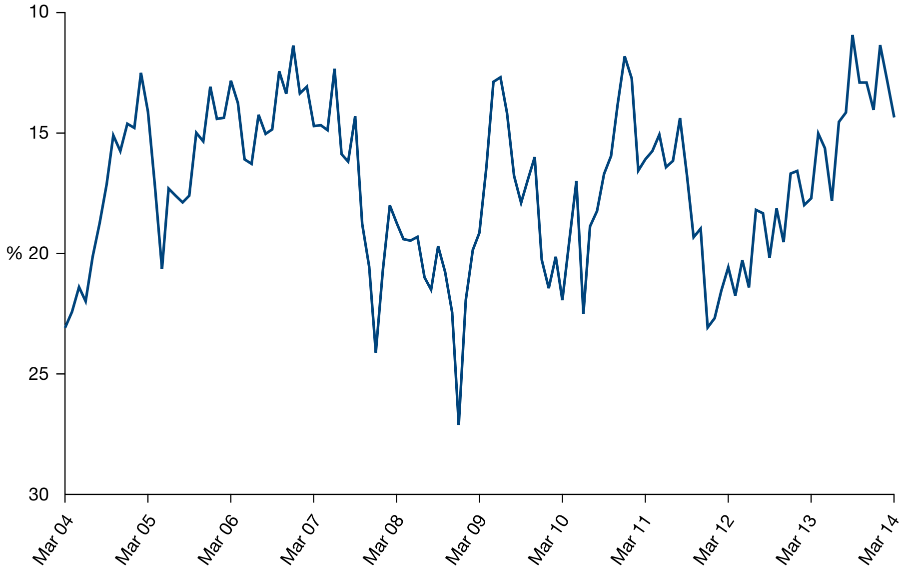
The key objective of the Company is to achieve long-term capital growth in returns for investors. It is pleasing to report that, since launch in March 1995, the NAV per share has increased by 488.7% compared with an increase of 109.5% in the benchmark* index. This represents outperformance of the benchmark in 14 out of 19 financial years.

The Manager, Montanaro Asset Management Limited ("Montanaro"), has not changed its investment approach, continuing to invest in companies which have strong management teams, sound balance sheets and good business franchises, and which it believes offer the potential for favourable long-term returns. Montanaro has a good long-term record which is based on investing in such companies.

Highlights 2014

— During the year ended 31 March 2014, the Company's share price increased by 16% to 505.50p, representing a discount to the NAV (excluding current period revenue) per share of 13%, compared to 16% at the start of the year. The NAV per share increased by 11% to 588.22p. This compares with an increase of 23% in the benchmark index, the NSCI.

Share Price Discount to NAV



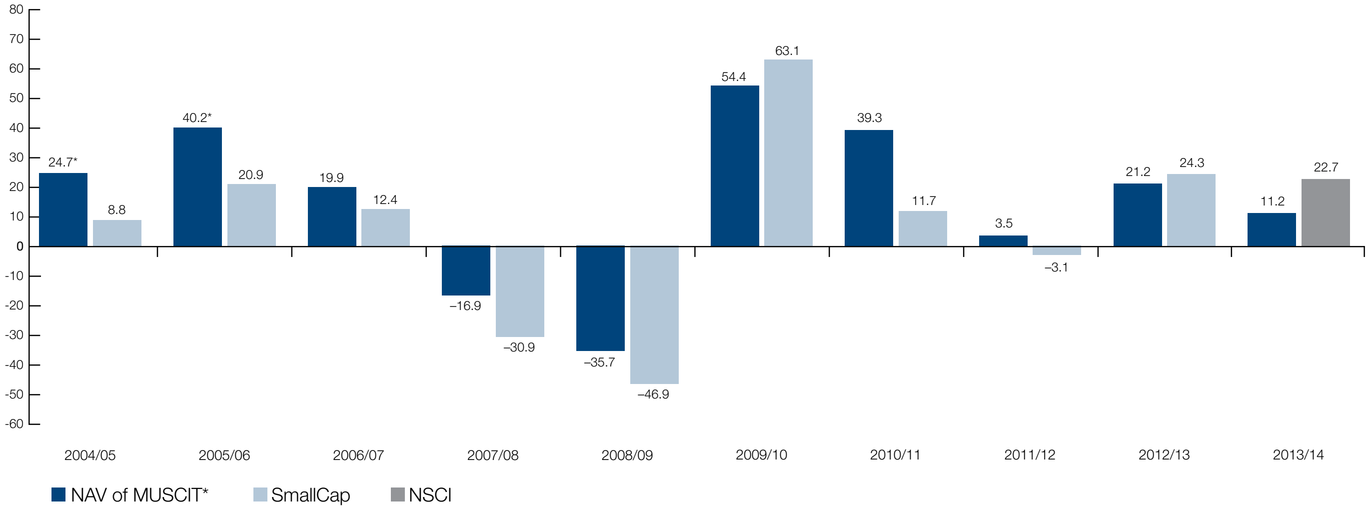
* Previous benchmark of FTSE SmallCap (excluding investment companies) to 31 March 2013 and NSCI from 1 April 2013.

Source: Montanaro Asset Management Limited/Bloomberg

Strategic Report continued

Chairman's Statement continued

Annual NAV Performance vs Benchmark



* Restated for changes to UK GAAP (all other years have not been restated).
Source: Capita Sinclair Henderson Limited/FTSE

As reported in the Half-Yearly Report, with effect from 1 April 2014, the investment management fee decreased from 1% pa to 0.85% pa of gross assets. In addition, the performance fee was removed. Your Board believes that these fee reductions will provide a more competitive and simpler management fee structure. In addition, this will make fee comparisons with other investment vehicles easier. The Board believes that shareholders will continue to benefit from Montanaro's expertise and its detailed research capabilities in the UK smaller companies sector.

Regulation

The Company will be caught by a number of new regulations originating from outside the UK, which will place a greater administrative and cost burden on it, The Alternative Investment Fund Managers' Directive ("AIFMD") has been discussed over several years and will fully come into force on 22 July 2014. Your Board has been working with its advisers to comply with this regulation and has agreed to appoint the Investment Manager as its Alternative Investment Fund Manager ("AIFM") and intends to appoint The Bank of New York Mellon as its Depository and Custodian. The necessary applications have been made and the Company expects to be fully compliant this July.

The Company has registered for the American derived Foreign Account Tax Compliance Act ("FATCA"). This will enable the Company to be exempted from the full administrative burden of reporting on its shareholders.

Directors

On behalf of the Board and management team, I should like to extend my thanks to our former chairman, David Gamble, who chaired the Board with great flair and skill from January 2005 until July 2013, a difficult act to follow.

We are fortunate to have appointed James Robinson to the Board in September 2013, who provides a wide range of investment experience combined with an accountancy background.

Michael Moule, who has been a Director for nine years, has indicated that he intends to retire at the Company's AGM in 2015, so we will search for a new Director later this year. Michael Moule will hand over the chair of the Audit Committee to James Robinson at our forthcoming AGM. Each year the Directors go through a rigorous appraisal of the Board and its Committees and assess how best it can function. A lively four person board works well for a trust of this size.

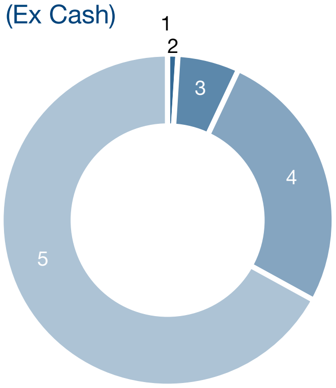
KATHRYN MATTHEWS
Chairman
23 June 2014

Manager's Report

- The SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing.
- Montanaro is well positioned to benefit from a return of investor appetite for the highest quality UK SmallCap.

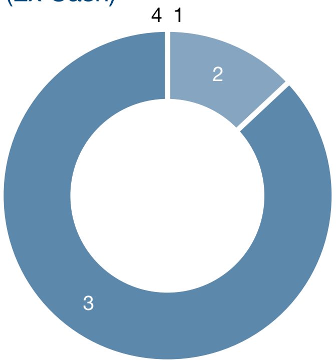
We remain confident that we hold a portfolio of exceptional companies that will generate sustainable and growing free cash flows. We believe such companies will deliver substantial shareholder value for years to come, as they have in the past, irrespective of market trends, cycles or investor sentiment.

Breakdown by Market Cap (Ex Cash)



1	£50–£100m	0%
2	£100–£200m	1%
3	£200–£300m	6%
4	£300–£600m	26%
5	>£600m	67%

Breakdown by Index (Ex Cash)



1	FTSE 100	0%
2	FTSE 250*	13%
3	Numis Smaller Companies	87%
4	UK AIM	0%

Montanaro

Montanaro was established in 1991. We have one of the largest and most experienced specialist teams in the UK dedicated exclusively to research and investing in quoted European smaller companies. We have a team of 28 investment professionals ensuring that we have the benefit of local contacts and knowledge that is so essential to detailed and thorough research.

At 31 March 2014, Montanaro's funds under management were over £2.7 billion.

Investment Philosophy and Approach

Montanaro specialises in quoted UK and European smaller companies with a particular focus on those with a stock market value below £2.5 billion.

Investment ideas typically are generated internally – rather than through brokers – and are researched in detail in-house. With around 2,000 companies currently within our universe, we are spoiled for choice. There is never a shortage of exciting new ideas. Before conducting detailed research on an individual company, we gather and carefully review extensive trade and industry data to help us to understand the sector in which a company operates and its growth drivers.

Investments are focused exclusively on companies that are profitable. We are mindful of our 'circle of competence' – complicated, blue-sky companies are not for us. We focus on companies we can understand, typically niche franchises with good and experienced management, sound finances, simple business models, good order visibility, high barriers to entry, a strong, normally dominant market position and a competitive advantage that ensures pricing power. If there is a choice of more than one company in a specific sector, we would normally invest in the market leader. We prefer companies that can demonstrate self-funded organic growth rather than those on the acquisition treadmill.

We believe that you "get what you pay for in life" – it is worth paying more for a higher quality company. We like cash generative companies with high operating profit margins – an indicator that they are providing goods or services of value to their clients – which are better able to withstand a downturn. We carefully assess potential catalysts for share price performance such as positive news flow. We never lose sight of our primary goal which is to make money for shareholders through sound investment based on our own rigorous, fundamental analysis. We take a conservative approach. We also believe that it is right and proper to align our interests with those of our investors – we invest in our own funds.

* Represents those holdings that are in the FTSE 250 and are above the threshold for Numis Smaller Companies holdings.

Strategic Report continued

Manager's Report continued

To ensure that we remain well informed, we regularly visit the companies in which we invest. This is the fun part of the job and where we feel we can add the most value. We place great emphasis on management and seek to gain an understanding of their goals and aspirations by seeing them operate in their own environment. It is a privilege to meet them. The track record of executives is examined in detail along with board structure, the level of insider ownership and the emphasis placed by management on sound corporate governance. Good communication and regular dialogue with management are an important part of our investment process. We are more interested in where an industry and a specific company will be in 5–10 years than its next set of figures. We are genuine long-term investors, seemingly an increasing rarity these days.

We believe that the major risk of investing in quoted UK SmallCap is stock specific. Having probably the UK's largest SmallCap specialist team, a high level of resources and a disciplined investment process means that we are well equipped to manage this company specific risk. In addition, we have a number of risk controls aimed at limiting our exposure to a particular sector or company. For example, if a stock reaches a 4% weighting in the portfolio, we will automatically reduce our exposure even if we believe the outlook is still positive – no company is immune to external shocks or unexpected surprises.

In summary, we invest in well managed, high quality companies in growth markets at sensible valuations. We are long-term investors and keep turnover and transaction costs low. We follow the companies in which we invest very closely over many years, measured more in decades than the short-termism of others. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. We like to sleep at night.

The Portfolio

The portfolio at 31 March 2014 consisted of 54 companies, of which the top ten holdings represented 26%. The focus has been, and continues to be, on companies with a market capitalisation of less than £1.8 billion.

Sector distribution within the portfolio is driven by stock selection. Although weightings relative to the market are monitored, overweight and underweight positions are held based on where the greatest value is perceived to be.

Review

2013/14 was a positive year for investors in UK SmallCap, with the NSCI benchmark index recording a strong performance with a capital return of 23%. In comparison, the Company's NAV increased by 11%.

Although the UK SmallCap market overall saw a solid performance, there was a significant divergence in returns between the types of companies. Mario Draghi's speech in July 2012, promising to "do whatever it takes" to defend the Euro, combined with signs of economic recovery in the UK, significantly increased investors' risk appetite. As a consequence, high quality, global growth companies were sold in order to buy lower quality, cyclical value stocks – a "risk on" trade which has continued ever since. This largely accounts for the relative underperformance of the Company.

Leading economic indicators began pointing to expansion for the UK economy early in the year and strengthened significantly thereafter. Europe, which remains the UK's largest trading partner, saw a similar improvement, albeit later and with less acceleration. 2014 GDP growth estimates for the UK gradually increased from 1.5% in the Spring of 2013 to 2.7% by the fiscal year end.

With monetary policy remaining loose throughout the developed world, UK equities rallied. However, emerging markets remained under pressure and saw their currencies weaken, in some cases substantially. This was an unhelpful development for global exporters, coming just as their more domestically oriented counterparts were benefitting from the tailwinds of local economic growth and improving sentiment in Europe.

Nevertheless, the end of the calendar year brought some glimmers of hope to quality growth investors such as Montanaro. The lower quality, value stocks, which had moved from pricing in a distressed environment to pricing in growth, generally produced lukewarm results. Meanwhile, the companies which were global market leaders a year ago unsurprisingly remained so, irrespective of their relative underperformance.

We are long-term investors with a track record built on investing in the highest quality companies that are growing. This will not change. While it is always disappointing to underperform, especially by such a large margin, it has not been surprising in an environment that has favoured higher risk investment. However, we remain confident that we hold a portfolio of exceptional companies that will generate sustainable and growing free cash flows. We believe such companies will deliver substantial shareholder value for years to come, as they have in the past, irrespective of market trends, cycles or investor sentiment.

Gearing

The Board determines levels of gearing following recommendation from the Manager. In 2013, the Company started the fiscal year with a low level of borrowing at 1.2%. The level was slowly increased from Autumn, reaching over 7.4% by end of January. Gearing at the fiscal year-end was 6.5%.

Outlook

Investors in UK SmallCap have now enjoyed two consecutive years of strong returns. A large portion of these returns have been the result of multiple expansion rather than an improvement in company earnings. The foundations of the bull market remain intact – bond yields remain exceptionally low and economic conditions have improved. However, for share prices to continue to advance, earnings growth has to be delivered.

We remain confident in the ability of our companies to grow, as do the management teams in charge of them. After nearly two years of outperformance by low quality, value companies, the relative premium investors are paying for quality growth has fallen substantially. The Company is well positioned to benefit from a return of investor appetite for the highest quality UK SmallCap. As investors increasingly focus on earnings growth, they are likely to turn to quality companies that are more likely to deliver. We look forward to the next twelve months with confidence.

MONTANARO ASSET
MANAGEMENT LIMITED
23 June 2014

Strategic Report continued

The Company

MUSCIT is a closed-ended investment trust listed on the London Stock Exchange with registration number 3004101. It has been granted approval from HM Revenue & Customs ("HMRC") as an investment trust under s1158/1159 of the Corporation Tax Act 2010 ("s1158/1159") for the year ended 31 March 2013, and for each subsequent accounting period, subject to there being no serious breaches of the conditions for approval.

New rules introduced by HMRC removed the maximum holding in any one investment of 15% and replaced this with a risk diversification approach. The Board has considered this and agreed that the Company's Investment Policy offers suitable risk diversification.

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.

INVESTMENT OBJECTIVE

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 AIM and to achieve relative outperformance of its benchmark, the NSCI.

No unquoted investments are permitted.

The Attractions of Quoted Smaller Companies ("SmallCap")

The key attraction of investing in SmallCap is that investors have the opportunity to make higher returns than from investing in large companies ("LargeCap"). It is easier for small companies to grow faster than it is for large companies; hence they offer investors the potential for higher earnings growth. In the UK, research shows that, since 1954, SmallCap equities have outperformed LargeCap by an average of 3.5% per annum ("the SmallCap Effect"). As a result, investors have received six times higher returns.

The SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing. However, due to a lack of broker research and the illiquidity of their shares, it takes a lot of time to get to know and understand these companies. This requires a level of in-house resources beyond the scope of most institutional investors. This is why many institutions are attracted to the asset class and equally why they will often outsource the day-to-day investment decisions to dedicated specialists such as Montanaro Asset Management Limited.

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 no bigger than the largest constituent of the NSCI, which represents the smallest 10% of the UK Stock Market by value. At the start of 2014, this was any company below £1.8 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 credit facilities of £25 million through ING Bank of which £15 million was drawn as at 31 March 2014. The Board has agreed to limit borrowings to 25% of shareholders' funds.

COMPANY INFORMATION

Share Buy Backs

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

No shares were bought back during the year.

Holding Shares in Treasury

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

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 2014 no shares were held in Treasury.

Borrowings

The Board determines borrowing levels following recommendations from the Manager and reviews this formally at each Board meeting.

At the end of the year, the Company had borrowings (net of cash) of 6.5% of the NAV compared to 1.2% at the beginning of the year. Gearing continued to be used actively during the year within ranges approved by the Board.

Benchmark

Following a review to assess the most appropriate benchmark against which its performance should be measured, the Company adopted the NSCI on 1 April 2013. There will continue to be no change in the investment approach or objectives.

Dividends

MUSCIT's primary focus is on capital growth rather than income. The results for the year are as set out in the Income Statement on page 30. The Directors recommend that a final dividend of 7.50p (2013: final 6.76p) per Ordinary share, amounting to £2,511,000 (2013: final £2,263,000) be paid on 13 August 2014 to shareholders on the share register at the close of business on 4 July 2014.

Directors

Mr Gamble retired from the Board on 26 July 2013, due to personal reasons and other commitments. Following Mr Gamble's retirement, Ms Matthews was appointed Chairman.

Mr Robinson was appointed as a Director on 30 September 2013.

Corporate Governance

The Directors have reviewed the recommendations of the AIC Code of 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 its website.

AIFMD

The AIFMD relates to European legislation that creates a European-wide framework for regulating managers of alternative investment funds ("AIFs"). Closed-ended investment companies fall within the remit of these new regulations will fully come into force on 22 July 2014.

The Board has reviewed the impact of AIFMD on the Company's operations and has decided to appoint Montanaro as the Company's AIFM. Under the AIFMD, the Company intends to appoint The Bank of New York Mellon as Depositary and Custodian.

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 above. Details of MUSCIT's internal controls may be found in the Corporate Governance section on pages 21 and 22.

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 long-term 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 a large, multi-national specialist team based 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, style bias, 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 regular reports. The portfolio is well diversified thereby spreading investment risk and reducing stock specific risk. The Board receives and reviews a regular 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 and cash balances of MUSCIT at each Board meeting. The Board agreed with the Manager in December 2011 to take out a £15 million five-year borrowing commitment to December 2016. In February 2014, the Board agreed with the Manager to take out an additional £10 million three-year loan facility to February 2017. The gearing facility has increased in proportion with the size of the portfolio.

Strategic Report continued

The Company continued

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 any AIM holdings, with the Manager providing the Board with liquidity reports at every meeting. Montanaro deals with a wide range of brokers to enhance its 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 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's 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 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 2013 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 the rules of the London Stock Exchange might result in censure by the FCA 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 FCA and London Stock Exchange Rules. This is reviewed at each Board meeting.

The Board has been monitoring the progression of the AIFM Directive and has been actively discussing options with providers. This will ensure that the Company will be able to comply with its requirements when the Directive is fully implemented on 22 July 2014.

The Company could also lose its investment trust company status if it became a close company at any time during the accounting period.

The Board reviews the share register at each meeting to ensure it does not become a close company. The Board acknowledges that it has no control over shareholders purchasing shares, nor their concentration on the share register.

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 regularly 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 investment trust company status.

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

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

The main financial covenants to which the Company is subject in respect of the ING Bank N.V. revolving credit facilities require it to ensure that total borrowings will not exceed 30% of the adjusted NAV at any time and that the adjusted NAV does not fall below £65,000,000 at any time.

The Board monitors compliance with banking covenants regularly and reviews them with the Administrator and Manager at each Board meeting.

The Company has entered into an interest rate swap agreement; the fair value of this is disclosed in note 15 of the financial statements.

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 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.

ANALYSIS OF PERFORMANCE USING KEY PERFORMANCE INDICATORS ("KPIs")

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

The NAV per Ordinary share, including revenue reserves, at 31 March 2014 was 588.22p (2013: 529.19p). Over the previous ten years and since launch the NAV has increased by 233% (2013: 345%) and 489% (2013: 430%) respectively. In comparison, the benchmark has increased by 42% (2013: 93%) over the previous ten years and 109% (2013: 87%) since launch.

The level of discount

The discount of MUSCIT's share price to NAV (excluding current period revenue) stood at 13% on 31 March 2014 in comparison with a weighted sector average of 9%.

The Ongoing Charges

	2014	2013
Ongoing Charges	**1.30%**	1.30%
Performance fees	**–**	–
Finance costs	**0.40%**	0.40%
Total Ongoing Charges plus performance fees and finance costs	**1.70%**	1.70%

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.

Montanaro receives independent third party corporate governance research and will usually vote in line with International Corporate Governance Network policies. Where possible, it engages with management teams before an AGM or EGM prior to any decision to abstain or vote against a board's recommendation.

In carrying out business with its suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

ENVIRONMENTAL, HUMAN RIGHTS, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

The Board recognises the requirement under Section 414C of the Act to detail information about environmental matters, human rights, social and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies. These requirements do not apply to the Company as it has no employees, all the Directors are non-executive and it has outsourced its functions to third party service providers; the Company has therefore not reported further in respect of these provisions.

GENDER DIVERSITY

As at 31 March 2014, the Board of Directors comprised of three male Directors and one female Director, who is also Chairman. Appointments to the Board are made according to a person's existing knowledge and expertise taking into account the Company's strategic priorities.

On behalf of the Board
KATHRYN MATTHEWS
Chairman
23 June 2014

Ten Largest Holdings
as at 31 March 2014

26%
of the portfolio

Berendsen PLC
Support Services

Berendsen – provider of textile cleaning and maintenance services.

Value	Portfolio	Market cap
£6.15m	2.9%	£1,929m

Mears Group PLC
Support Services

Mears – provider of social housing maintenance and domestic care services.

Value	Portfolio	Market cap
£5.95m	2.8%	£529m

Hilton Food Group plc
Food Producers

Hilton – international specialist meat packing to the retail sector.

Value	Portfolio	Market cap
£5.74m	2.7%	£364m

Consort Medical PLC
Health Care, Equipment and Services

Consort – medical device technologies for drug delivery.

Value	Portfolio	Market cap
£5.72m	2.7%	£274m

Big Yellow Group PLC
Real Estate/Real Estate Investment Trusts

Big Yellow – a REIT focused on the self-storage market.

Value	Portfolio	Market cap
£5.47m	2.6%	£774m

SuperGroup Plc

Personal Goods

Supergroup – retailer and owner of the SuperDry brand.

£5.29m	2.5%	£1,382m
Value	Portfolio	Market cap

NCC Group PLC

Software and Computer Services

NCC – software business specialising in escrow and cyber security.

£5.25m	2.5%	£391m
Value	Portfolio	Market cap

Innovation Group PLC

Software and Computer Services

Innovation – provider of claims handling software services to the motor and property insurance markets.

£5.16m	2.5%	£419m
Value	Portfolio	Market cap

James Fisher PLC

Industrial Transportation

James Fisher – deep sea diving and marine engineering specialist to the offshore oil market.

£5.12m	2.4%	£733m
Value	Portfolio	Market cap

Brewin Dolphin Holdings PLC

Financial Services

Brewin Dolphin – UK investment management and financial planning firm.

£5.07m	2.4%	£928m
Value	Portfolio	Market cap

Investment Portfolio
as at 31 March 2014

Holding	**Sector**	**Value £'000**	**Market cap £m**	**% of portfolio 31 March 2014**	% of portfolio 31 March 2013
Berendsen	Support Services	6,149	1,929	2.9	
Mears Group	Support Services	5,947	529	2.8	2.4
Hilton Food Group	Food Producers	5,744	364	2.7	
Consort Medical	Health Care, Equipment and Services	5,716	274	2.7	2.9
Big Yellow Group	Real Estate/Real Estate Investment Trusts	5,465	774	2.6	
SuperGroup	Personal Goods	5,292	1,382	2.5	
NCC Group	Software and Computer Services	5,250	391	2.5	2.6
Innovation Group	Software and Computer Services	5,160	419	2.5	
James Fisher	Industrial Transportation	5,120	733	2.4	3.0
Brewin Dolphin Holdings	Financial Services	5,070	928	2.4	2.3
Victrex	Chemicals	5,022	1,711	2.4	2.8
RPS Group	Support Services	5,002	690	2.4	3.0
Jupiter Fund Management	Financial Services	4,890	1,834	2.3	
Helical Bar	Real Estate/Real Estate Investment Trusts	4,672	442	2.2	1.7
Brammer	Support Services	4,636	633	2.2	3.6
Domino Printing Sciences	Electronic and Electrical Equipment	4,562	884	2.2	3.5
AG Barr	Beverages	4,453	712	2.1	1.6
Marshalls	Construction and Materials	4,425	353	2.1	0.9
Clarkson	Industrial Transportation	4,406	465	2.1	1.5
Cineworld Group	Travel and Leisure	4,350	819	2.1	
Twenty Largest Holdings		**101,331**		**48.1**	
Bovis Homes Group	Household Goods and Home Construction	4,298	1,201	2.1	
Senior	Aerospace and Defence	4,167	1,283	2.0	2.8
Cranswick	Food Producers	4,130	598	2.0	0.7
Telecom Plus	Fixed Line Telecommunication	4,119	1,431	2.0	
Dialight	Electronic and Electrical Equipment	4,084	295	2.0	2.7
Xaar	Electronic and Electrical Equipment	4,033	714	1.9	
Entertainment One	Media	4,016	954	1.9	
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	4,008	586	1.9	3.8
Ted Baker	Personal Goods	3,974	938	1.9	
Kcom Group	Fixed Line Telecommunication	3,770	512	1.8	
Aveva Group	Software and Computer Services	3,769	1,338	1.8	2.6
Restaurant Group	Travel and Leisure	3,636	1,431	1.7	
Diploma	Support Services	3,587	812	1.7	
Dairy Crest Group	Food Producers	3,434	661	1.6	
Fenner	Industrial Engineering	3,411	773	1.6	2.8
Renishaw	Electronic and Electrical Equipment	3,315	1,419	1.6	2.6
Halma	Electronic and Electrical Equipment	3,312	2,176	1.6	0.9
EnQuest	Oil and Gas Producers	3,286	995	1.6	3.3
Dunelm Group	General Retailers	3,215	1,914	1.5	
Paypoint	Support Services	3,149	777	1.5	
Hunting	Oil Equipment, Services and Distribution	3,037	1,279	1.5	
Telecity Group	Software and Computer Services	2,980	1,415	1.4	0.9
Rathbone Brothers	Financial Services	2,662	864	1.3	1.6
Euromoney Institutional Investor	Media	2,654	1,535	1.3	
Hellermanntyton Group	Electronic and Electrical Equipment	2,608	702	1.2	
Shaftesbury	Real Estate/Real Estate Investment Trusts	2,467	1,828	1.2	2.9
Wilmington Group	Media	2,446	200	1.2	1.1
Galliford Try	Construction and Materials	2,322	1,092	1.1	
Latchways	Support Services	2,260	116	1.1	2.1
Domino's Pizza Group	Travel and Leisure	2,206	912	1.1	3.4
Dignity	General Retailers	2,041	787	1.0	4.0
Ocean Wilson Holdings	Industrial Transportation	2,006	387	1.0	1.7
Devro	Food Producers	1,863	394	0.9	3.4
ITE Group	Media	1,815	477	0.9	
Total Portfolio		**209,411**		**100.0**	

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2014

Sector	% of portfolio	% of NSCI
Oil and Gas Producers	1.6	3.2
Oil Equipment, Services & Distribution	1.5	1.7
Alternative Energy	–	0.1
Oil and Gas	**3.1**	**5.0**
Chemicals	2.4	3.0
Industrial Metals	–	0.6
Mining	–	3.6
Basic Materials	**2.4**	**7.2**
Construction and Materials	3.2	2.9
Aerospace and Defence	2.0	2.8
General Industrials	–	1.5
Electronic and Electrical Equipment	10.5	4.1
Industrial Engineering	1.6	2.3
Industrial Transportation	5.5	1.7
Support Services	14.6	12.1
Industrials	**37.4**	**27.4**
Automobiles and Parts	–	–
Beverages	2.1	0.8
Food Producers	7.2	2.7
Household Goods	2.1	2.6
Leisure Goods	–	0.4
Personal Goods	4.4	1.4
Consumer Goods	**15.8**	**7.9**
Health Care, Equipment and Services	2.7	2.1
Pharmaceuticals and Biotechnology	1.9	1.2
Health Care	**4.6**	**3.3**
Food and Drug Retailers	–	0.9
General Retailers	2.5	5.9
Media	5.3	3.4
Travel and Leisure	4.9	8.4
Consumer Services	**12.7**	**18.6**
Fixed Line Telecommunications	3.8	2.8
Telecommunications	**3.8**	**2.8**
Electricity	–	0.6
Gas, Water & Multi-utilities	–	0.1
Utilities	**–**	**0.7**
Banks	–	0.5
Life and Non-life Insurance	–	3.5
Real Estate	6.0	9.3
Financial Services	6.0	5.8
Financials	**12.0**	**19.1**
Software and Computer Services	8.2	4.9
Technology Hardware & Equipment	–	3.1
Technology	**8.2**	**8.0**
Total	**100.0**	**100.0**

The investment portfolio comprises 54 listed UK equity holdings. There are no holdings traded on AIM.

Board of Directors

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

Kathryn Matthews – Chairman

Kathryn Matthews was appointed a Director on 1 April 2010 and became Chairman of MUSCIT on 27 July 2013. 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 Royal London Group. She has also been appointed as a non-executive director for JP Morgan Chinese Investment Trust Plc and Aperam. She is also chairman of the Investment Committee of Royal London Group.

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.

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 and the Open University.

James Robinson

James Robinson, appointed on 30 September 2013, was chief investment officer, investment trusts and director of hedge funds at Henderson Global Investors prior to his retirement in 2005. A chartered accountant, he has 33 years investment experience and is a director of Aberdeen New Thai Investment Trust plc, Invesco Asia Trust plc, Fidelity European Values PLC and JPMorgan Elect plc. He is also chairman of Polar Capital Global Healthcare Growth and Income Trust plc and a council member and chairman of the investment committee of the British Heart Foundation.

Directors' Report

SHARE CAPITAL

There are currently 33,475,958 Ordinary 10p shares in issue (2013: 33,475,958), none of which are held in Treasury (2013: nil). Holders of Ordinary shares have unrestricted voting rights of one vote per share at all general meetings of the Company.

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 FCA Disclosure and Transparency Rules.

- The Company's capital structure and voting rights are disclosed above.
- Details of the substantial shareholders in the Company are disclosed on page 22.
- The Board's current powers to buy back shares are stated on page 10 and proposals for their renewal are disclosed on page 22.
- 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 to which the Company is party that might affect its control following a successful takeover bid.

Management Agreement

The Company agreed with Montanaro Asset Management Limited (the "Manager") that, with effect from 1 April 2014, the Manager will receive an investment management fee of 0.85% pa of gross assets and no performance fee.

Subsequent to the year end, the Company entered into a new Investment Management Agreement with the Manager dated 19 June 2014 under which the Manager will be appointed by the Company to act as AIFM, under the terms of the AIFMD. Upon appointment as AIFM, Montanaro will receive an ongoing fee of £50,000 pa to act as the Company's AIFM and the Company has agreed to pay a one-off set up fee of £25,000 in connection with the AIFM service.

Except in certain circumstances, the Management Agreement may only be terminated by the Manager on giving 12 months' notice to the Company, or by the Company on paying to the Manager 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.

During the year ended 31 March 2014, the Company's investments were 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 was 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 benchmark 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 was 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) was 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 (after adjusting for dividends subsequently paid in respect of that financial year); and (ii) had 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 2012, being the last financial year in which the Manager was entitled to a performance fee, the Company achieved a NAV of 429.81p (after adjusting for dividends subsequently paid of 6.76p). No performance fee is payable in respect of the year ended 31 March 2014 (2013: £nil).

The previous management agreement was subject to 12 months' notice in writing by either party. On termination of the management agreement in certain circumstances, the Manager was 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, through the Management Engagement Committee, 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 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' Report continued

Corporate Governance

COMPLIANCE WITH THE PROVISIONS OF THE AIC CODE OF CORPORATE GOVERNANCE AND GUIDE

The Board of MUSCIT has considered the principles and recommendations of the AIC Code of Corporate Governance dated 2013 ("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 2012, 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 considers 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.

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
Kathryn Matthews	6	6	2	2	1	1	1	1	5	5
Roger Cuming	6	6	2	2*	1	1*	1	1*	5	5*
Michael Moule	6	6	2	2	1	1	1	1	5	5
James Robinson**	2	2	1	1	n/a	n/a	n/a	n/a	2	2
David Gamble***	2	2	1	1	1	1	1	1	2	2

* Attended by invitation.

** Appointed 30 September 2013.

*** Resigned 26 July 2013.

The Company holds at least five 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 2014, six Board meetings were held, one of which was a full-day session devoted entirely to reviewing strategic matters.

THE BOARD

Throughout the year, until the retirement of Mr Gamble on 26 July 2013, the Board comprised four non-executive Directors. During the two months until Mr Robinson's appointment on 30 September 2013, the Board comprised three 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, were and continue to be independent.

The Board has reviewed the fact that Mr Cuming is a senior member of a company that has a shareholding in MUSCIT. The Board is 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. The Board therefore agreed that it considered him to be 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 or since the year end.

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 page 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 also 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. Directors will also be subject to annual re-election after nine years of service. The Board believes that there are significant benefits to the Company in having a long serving Director.

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 Cuming will retire by rotation at the Annual General Meeting and, being eligible, will offer himself for re-election.

Fellow Directors strongly recommend the re-election of Mr Cuming because of his investment industry experience and continuing strong contributions to the Company.

In accordance with the AIC Code, James Robinson will offer himself for election, it being the first Annual General Meeting since his appointment to the Board.

Fellow Directors strongly recommend the election of Mr Robinson because of his 33 years investment experience and current involvement in the investment trust industry and strong contributions to the Company.

PERFORMANCE EVALUATION

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

Ms Matthews, 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. Mr Cuming, as the Senior Director, led the appraisal of the Chairman.

The Board has reviewed the time commitment required from all Directors, and noting their contributions and 100% attendance at all Board and Committee meetings and discussions held outside these formal meetings, believes that all Directors have demonstrated the necessary commitment to the role.

The Board considers that outside commitments have not impinged on their duties as a Director of MUSCIT and have enhanced the knowledge brought to the Board meetings.

Directors' Report continued

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	57
Number of meetings voted against management or abstained	12
Resolutions	
Number of resolutions where voted with management	787
Number of resolutions where abstained	16
Number of resolutions where voted against management	3

REPORT FROM THE AUDIT COMMITTEE

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 for the production and integrity of the Company's accounts. The Committee also reviews and monitors the effectiveness of the internal control and risk management 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 the internal controls of service providers and reviews the need for internal audit.

The Audit Committee has:

- Reviewed the internal controls and risk management systems of the Company and its third party providers;
- Agreed the audit plan with the Auditors, including the principal areas of focus;
- Received and discussed with the Auditors their report on the results of the audit; and
- Reviewed the Company's financial statements and advised the Board accordingly.

The key area of risk that had been determined by the Audit Committee in relation to the business activities and financial statements of the Company, was the valuation of the listed investments. The Board relies on the Administrator to use correct listed prices and seeks comfort in the testing of this process through the internal control statements. This was discussed with the Administrator, Manager and Auditor at the conclusion of the audit of the financial statements.

The Audit Committee has reviewed and accepted reports from the Auditor on its procedures for ensuring that its 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.

This is the first year with the new audit director. KPMG has been Auditor to the Company since incorporation in 1995. No tender for the audit of the Company has been undertaken. The Audit Committee regularly considers the need to put the audit out to tender, its fees and independence from the Manager, along with matters raised during each audit.

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. KPMG Audit Plc has instigated an orderly wind down of business. The Audit Committee has recommended to the Board that the successor firm, KPMG LLP, be appointed as Auditor.

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

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 Remuneration Committee is comprised of the three independent non-executive Directors, with Mr Moule acting as Chairman. The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board, and reviews the Directors' Remuneration Report. 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 three independent non-executive Directors and meets as required for the purpose of considering recruitment to, and removals from, the Board, with Mr Moule acting as Chairman. Appointments to the Board are made according to a person's existing knowledge and expertise taking into account the Company's agreed strategic priorities.

Trust Associates, an independent external non-executive director search agency, was engaged by the Company to identify suitable candidates prior to the appointment of James Robinson on 30 September 2013. The Board is committed to a policy of succession planning. As part of its long-term succession planning the Board will continue its search for an additional Director with complementary skills to the existing Board members.

The Committee held five meetings during the year to consider other potential non-executive directors.

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 one meeting.

The Management Engagement Committee considers the performance of the Manager by comparing it to obligations imposed under the terms of the Investment Management Agreement. The Committee makes recommendations to the full Board on any variations to the terms of the Investment Management Agreement when it considers it necessary or desirable and on the continuing appointment of the Manager.

GLOBAL GREENHOUSE GAS EMISSIONS

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

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 would take 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 Audit Committee 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 2013.
- Investment management is provided by the Manager, which is regulated by the FCA. 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.

Directors' Report continued

- The procedures of the individual parties are designed to complement one another.
- The Board of MUSCIT clearly defines the duties and responsibilities of its 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 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.

The Annual and Half-Yearly Reports of the Company are prepared by the Board and its advisers to present a fair, balanced and understandable review of the Company's performance, business model and strategy.

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 Manager has signed up to the Stewardship Code and publishes its voting records on its website.

Substantial Shareholdings

As at 31 March 2014, MUSCIT had 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
Quilter Cheviot Limited	2,011,721	6.01
Reliance Mutual Insurance Society Limited	1,885,000	5.63
Jupiter Asset Management Limited	1,875,000	5.60
Newton Investment Management Limited	1,661,565	4.96
Royal London Asset Management Limited	1,534,839	4.58
Henderson Global Investors Limited	1,450,000	4.33
AEGON UK Group of Companies	1,436,374	4.29
City of Bradford Metropolitan District Council	1,228,500	3.67

At the date of this report the Company has been advised that Quilter Cheviot Limited has an interest in 1,671,230 shares, representing 4.99% of the total voting rights of the Company. There have been no other changes notified between 31 March 2014 and the date of this report.

Going Concern

At the 2013 Annual General Meeting of the Company, an Ordinary Resolution was passed releasing the Directors from the obligation to convene a General Meeting during 2014 for the purpose of proposing for the Company to be wound-up on a voluntary basis as stated in the Company's Articles of Association. The Company will be required to propose a Resolution at a General Meeting every five years thereafter unless, at any Annual General Meeting 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.

Auditor

Resolution 7 will be put to shareholders at the forthcoming AGM to appoint KPMG LLP and to authorise the Directors to determine their remuneration.

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/she ought to have taken as a Director to make himself/herself 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 8 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 8. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Resolution number 9, if passed, will give the Directors the general authority (pursuant to paragraph (a) of the Resolution) to allot Ordinary shares 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 9 the Directors will have the authority (pursuant to paragraph (b) of the Resolution) to allot Ordinary shares up to an additional one-third of the current issued share capital but only for the purposes of a rights issue to existing shareholders. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Resolution number 10, subject to the passing of Resolution 9, will give the Directors the general authority to allot Ordinary shares (including issues out of Treasury) for cash, up to an aggregate nominal amount of £334,760, 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 authorities for the above resolutions will expire at the conclusion of the Company's next Annual General Meeting after the passing of the resolutions.

Resolution number 11, subject to the passing of Resolution number 10, will give the Directors a general authority to sell shares held in Treasury at a discount to net asset value, up to the same aggregate nominal amount of £334,760, 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 12, 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 requires to be dealt with expediently.

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

The Directors consider that all resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its members as a whole.

The Directors unanimously recommend that all shareholders vote in favour of all the resolutions, as they intend to do in respect of their own holdings.

By order of the Board

CAPITA SINCLAIR HENDERSON LIMITED
Company Secretary
23 June 2014

Principal Advisers

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Fax: 020 7448 8601
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info@montanaro.co.uk

Company Secretary, Administrator and Registered Office
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Registrars
CAPITA ASSET SERVICES
Shareholder Services Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
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(calls will cost 10p per minute plus network charges)
Fax: 020 639 2342
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ING BANK N.V.
London Branch
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Auditor
KPMG AUDIT PLC
100 Temple Street
Bristol BS1 6AG

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' Remuneration Report

The Board has prepared this Report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Ordinary Resolutions for the approval of this report and the Directors' Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting.

The law requires the Company's Auditor, KPMG Audit Plc, to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 28 and 29.

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE.

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2014.

Shareholders may be aware that new rules for the reporting of directors' remuneration came into effect on 1 October 2013. These now require companies to ask shareholders to approve the annual remuneration paid to Directors every year and to formally approve the Directors' Remuneration Policy on a three-yearly basis. Any change to the Directors' Remuneration Policy will require shareholder approval. The vote on the Directors' Remuneration Report is, as previously, an advisory vote, whilst the Directors' Remuneration Policy is subject to a binding vote. Accordingly, Ordinary Resolutions will be put to shareholders at the forthcoming Annual General Meeting to be held on 30 July 2014, to receive and approve the Directors' Remuneration Report and to receive and approve the Directors' Remuneration Policy.

Remuneration Committee

The Remuneration Committee is comprised of three non-executive Directors, Ms Matthews and Mr Robinson, with Mr Moule 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.

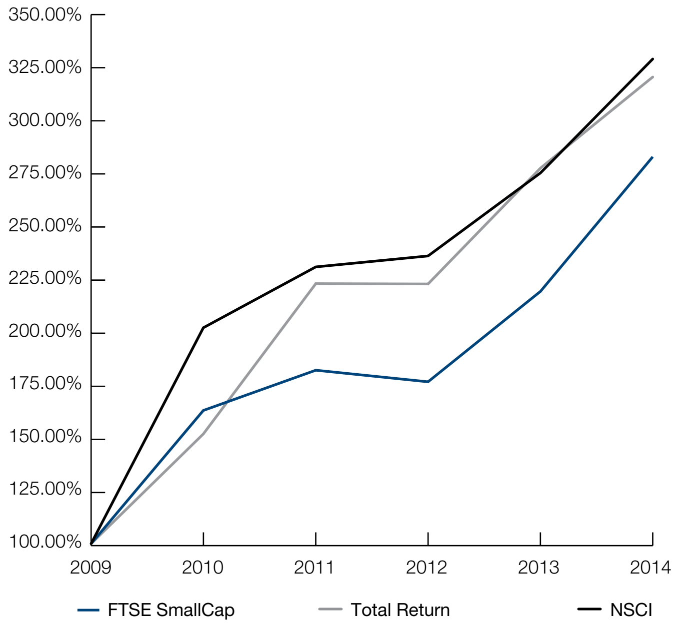
After a strong 2013 and following a review of the market, the Board agreed to increase Directors' fees on 1 April 2013. For the year ending 31 March 2014, Directors' fees were £29,000 for the Chairman of the Board, £22,000 for the Chairman of the Audit Committee, £21,000 for the Senior Director and £20,000 for other Directors.

In recognition of increased regulation, the Board has agreed to increase the fee of the Chairman of the Audit Committee to £23,000, effective from the conclusion of the 2014 Annual General Meeting.

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 SmallCap and the NSCI. The SmallCap was chosen for comparison purposes as it is the benchmark used for investment performance measurement purposes up until 31 March 2013. The NSCI was adopted as the new benchmark from 1 April 2013. Both indices have been included for the five years for comparative purposes.

Total Return vs FTSE SmallCap and NSCI (rebased from March 2009)



Source: Capita Sinclair Henderson Limited

Directors' Emoluments for the Year (Audited)

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

	2014 Fees £	**2014** Total £	2013 Fees £	2013 Total £
Kathryn Matthews	**26,145**	**26,145**	18,500	18,500
Roger Cuming	**21,000**	**21,000**	19,500	19,500
Michael Moule	**22,000**	**22,000**	20,000	20,000
James Robinson (appointed 30 September 2013)	**10,056**	**10,056**	–	–
David Gamble (retired 26 July 2013)	**9,277**	**9,277**	27,000	27,000
	88,478	**88,478**	85,000	85,000

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

Directors' Remuneration Report continued

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.

The Directors' Remuneration Report for the year ended 31 March 2013 was approved by shareholders at the Annual General Meeting held on 26 July 2013. The votes cast by proxy were as follows:

	Number of votes	**% of votes cast**
For	24,826,506	99.96%
Against	0	0.00%
At Chairman's discretion	9,168	0.04%
Total votes cast	24,835,674	100.00%
Number of votes withheld	680,000	

Directors' Beneficial and Family Interests (Audited)

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

	As at 31 March 2014 No. of shares	As at 1 April 2013 No. of shares
Kathryn Matthews	**1,500**	1,500
Roger Cuming	**5,000**	5,000
Michael Moule	**10,000**	10,000
James Robinson*	**2,500**	–

* appointed 30 September 2013.

There have been no changes to the above holdings between 31 March 2014 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.

The table below sets out, in respect of the financial year ended 31 March 2014 and the preceding financial year:

a) The remuneration paid to the Directors; and

b) The distributions made to shareholders by way of a dividend.

	Year ended 31 March 2014 £	Year ended 31 March 2013 £	Change %
Total remuneration	**88,478**	85,000	4.09
Dividend paid	**2,262,975**	2,262,975	0.00

Remuneration Policy

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).

The fees of the existing or new Directors are determined within the limits set out in the Company's Articles of Association. The maximum aggregate amount of Directors' fees in any one financial year shall not exceed £125,000. 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.

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.

	Expected fees for the year to 31 March 2015 (annualised)	Fees for the year to 31 March 2014
Chairman	**29,000**	29,000
Chairman of the Audit Committee	**23,000**	22,000
Senior Director	**21,000**	21,000
Non-executive Director	**20,000**	20,000

Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees. The Directors' Remuneration Policy will be put to shareholders' vote at least once every three years.

An Ordinary Resolution for the approval of this Directors' Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting. If approved by shareholders, the Directors' Remuneration Policy will be effective immediately upon the passing of the Ordinary Resolution at the Annual General Meeting.

Approval

The Directors' Remuneration Report was approved by the Board on 23 June 2014

On behalf of the Board
MICHAEL MOULE
Remuneration Committee Chairman

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law 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 Strategic Report, 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;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board
KATHRYN MATTHEWS
Chairman
23 June 2014

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

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Montanaro UK Smaller Companies Investment Trust PLC for the year ended 31 March 2014 set out on pages 30 to 43. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its net return for the year then ended;
- have been properly prepared in accordance with UK accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risk of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Carrying value of listed investments (£209,411,000):
Refer to page 20 (Audit Committee Report), pages 34 to 35 (accounting policy) and pages 41 to 43 (financial disclosures).

The risk: The Company's portfolio consists entirely of listed investments which are considered to be the key driver of the Company's operations and performance results. We do not consider there is a high risk of significant misstatement or a requirement for a significant level of judgement regarding listed investments as they are comprised of liquid, quoted instruments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response: Our procedures over the existence, completeness and valuation of the Company's investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- verifying the valuation of 100% of portfolio investments by reference to externally quoted prices; and
- verifying 100% of portfolio investment holdings to independently received third party confirmations.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £4,252,000. This has been determined with reference to a benchmark of Total Assets (of which it represents 2%). Total Assets, which is primarily composed of the Company's investment portfolio, is considered the key driver of the Company's operations and performance results and, as such, we believe that it is one of the principal considerations for members of the Company in assessing its financial performance.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £213,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Administrator, Capita Sinclair Henderson Limited, in Exeter.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Corporate Governance Statement does not appropriately address matters communicated by us to the Audit Committee.

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 22, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 18 to 23 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Marie Williams (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

23 June 2014

Income Statement
for the year to 31 March 2014

		Year to 31 March 2014			Year to 31 March 2013		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains on investments designated as fair value through profit or loss	10	**–**	**20,352**	**20,352**	–	32,574	32,574
Dividends and interest	2	**4,371**	**–**	**4,371**	3,844	–	3,844
Management fee	3	**(999)**	**(999)**	**(1,998)**	(857)	(857)	(1,714)
Other expenses	4	**(422)**	**–**	**(422)**	(315)	–	(315)
Movement in fair value of derivative financial instruments	15	**–**	**371**	**371**	–	(479)	(479)
Net return before finance costs and taxation		**2,950**	**19,724**	**22,674**	2,672	31,238	33,910
Interest payable and similar charges	6	**(325)**	**(325)**	**(650)**	(322)	(322)	(644)
Net return before taxation		**2,625**	**19,399**	**22,024**	2,350	30,916	33,266
Taxation	7	**–**	**–**	**–**	–	–	–
Net return after taxation		**2,625**	**19,399**	**22,024**	2,350	30,916	33,266
Return per Ordinary share	9	**7.84p**	**57.95p**	**65.79p**	7.02p	92.35p	99.37p

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 34 to 43 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year to 31 March 2014

Year to 31 March 2014	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 2013		**3,348**	**19,307**	**1,362**	**4,642**	**144,259**	**4,233**	**177,151**
Fair value movement of investments	10	**–**	**–**	**–**	**–**	**20,352**	**–**	**20,352**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(1,324)**	**–**	**(1,324)**
Dividends paid in the year	8	**–**	**–**	**–**	**–**	**–**	**(2,263)**	**(2,263)**
Movement in fair value of derivative financial instruments	15	**–**	**–**	**–**	**–**	**371**	**–**	**371**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**2,625**	**2,625**
As at 31 March 2014		**3,348**	**19,307**	**1,362**	**4,642**	**163,658**	**4,595**	**196,912**

Year to 31 March 2013	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 2012		3,348	19,307	1,362	4,642	113,343	4,146	146,148
Fair value movement of investments	10	–	–	–	–	32,574	–	32,574
Costs allocated to capital		–	–	–	–	(1,179)	–	(1,179)
Dividends paid in the year	8	–	–	–	–	–	(2,263)	(2,263)
Movement in fair value of derivative financial instruments	15	–	–	–	–	(479)	–	(479)
Net revenue for the year		–	–	–	–	–	2,350	2,350
As at 31 March 2013		3,348	19,307	1,362	4,642	144,259	4,233	177,151

The notes on pages 34 to 43 form part of these financial statements.

Balance Sheet
as at 31 March 2014

	Notes	31 March 2014 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2013 £'000
Fixed assets					
Investments designated at fair value through profit or loss	10		**209,411**		179,446
Current assets					
Debtors	12	**1,070**		711	
Cash at bank	21	**2,137**		12,961	
		3,207		13,672	
Creditors: amounts falling due within one year					
Other creditors	13	**(523)**		(413)	
Revolving credit facility	14	**(15,000)**		(15,000)	
		(15,523)		(15,413)	
Net current liabilities			**(12,316)**		(1,741)
Total assets less current liabilities			**197,095**		177,705
Creditors: amounts falling due after more than one year					
Interest rate swap	15		**(183)**		(554)
Net assets			**196,912**		177,151
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			**163,658**		144,259
Distributable revenue reserve			**4,595**		4,233
Total equity shareholders' funds			**196,912**		177,151
Net asset value per Ordinary share	19		**588.22p**		529.19p

These financial statements were approved by the Board of Directors on 23 June 2014.

KATHRYN MATTHEWS
Chairman

Company Registered Number: 3004101

The notes on pages 34 to 43 form part of these financial statements.

Statement of Cash Flows
for the year to 31 March 2014

	Notes	**Year to 31 March 2014 £'000**	**£'000**	Year to 31 March 2013 £'000	£'000
Operating activities					
Investment income received		**4,604**		3,681	
Deposit interest received		**3**		2	
Management fees paid		**(1,900)**		(1,688)	
Performance fees paid		**–**		(812)	
Company secretarial fees paid		**(109)**		(82)	
Other cash expenses		**(314)**		(227)	
Net cash inflow from operating activities	20		**2,284**		874
Servicing of finance					
Interest and similar charges paid		**(645)**		(646)	
Net cash outflow from servicing of finance			**(645)**		(646)
Capital expenditure and financial investment					
Purchases of investments		**(108,868)**		(28,187)	
Sales of investments		**98,668**		29,217	
Net cash (outflow)/inflow from investing activities			**(10,200)**		1,030
Equity dividends paid			**(2,263)**		(2,263)
Decrease in cash	21		**(10,824)**		(1,005)

The notes on pages 34 to 43 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2014

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 timeframe 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 and allocated to capital.

1 Accounting Policies continued

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 2014 £'000	Year to 31 March 2013 £'000
Income from investments	**4,368**	3,842
UK dividend income	**4,295**	3,781
Overseas dividend income	**73**	61
Other income		
Bank interest	**3**	2
Total income	**4,371**	3,844
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**4,368**	3,842
Interest from financial assets designated at fair value through profit or loss	**3**	2
Dividends and interest	**4,371**	3,844

3 Management fee

	Year to 31 March 2014			Year to 31 March 2013		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**999**	**999**	**1,998**	857	857	1,714
Performance fee	**–**	**–**	**–**	–	–	–

The Manager received 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 page 17.

At 31 March 2014, £259,000 (2013: £161,000) was due for payment to the Manager.

Notes to the Financial Statements continued
at 31 March 2014

4 Other Expenses

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Administration and company secretarial fees	**103**	89
Auditor's remuneration for:		
– audit	**20**	20
Other expenses (including Directors' remuneration and VAT)	**299**	206
	422	315

5 Directors' Remuneration

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Total fees	**88**	85

A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 25.

The Company has no employees.

6 Interest Payable and Similar Charges

	Year to 31 March 2014			Year to 31 March 2013		
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	**322**	**322**	**644**	322	322	644
Loan commitment fee	**3**	**3**	**6**	–	–	–
	325	**325**	**650**	322	322	644

7 Taxation

	Year to 31 March 2014			Year to 31 March 2013		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	**2,625**	**19,399**	**22,024**	2,350	30,916	33,266
Theoretical corporation tax at 23% (2013: 24%)	**604**	**4,462**	**5,066**	564	7,420	7,984
Effects of:						
– capital gains that are not taxable	**–**	**(4,766)**	**(4,766)**	–	(7,703)	(7,703)
– overseas dividend income not liable to corporation tax	**(17)**	**–**	**(17)**	(15)	–	(15)
– UK dividend income not liable to corporation tax	**(957)**	**–**	**(957)**	(883)	–	(883)
– excess management expenses	**370**	**304**	**674**	334	283	617
	–	**–**	**–**	–	–	–

At 31 March 2014, the Company had surplus management expenses and non-trade losses of £33,109,133 (2013: £30,175,753) which have not been recognised as a deferred taxation asset. This is because the Company is not expected to generate taxable income in future periods in excess of the deductible expenses of those future periods and, accordingly, it is unlikely that the Company will be able to reduce future taxation through the use of existing surplus expenses.

Due to the Company's status as an investment trust and the intention to continue to meet the conditions required to maintain its investment trust status, 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 2014 £'000	Year to 31 March 2013 £'000
Paid		
2013 Final dividend of 6.76p (2012: 6.76p) per Ordinary share	**2,263**	2,263
Proposed		
2014 Final dividend of 7.50p (2013: 6.76p) per Ordinary share	**2,511**	2,263

9 Return per Ordinary Share

	Year to 31 March 2014			Year to 31 March 2013		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**7.84p**	**57.95p**	**65.79p**	7.02p	92.35p	99.37p

Revenue return per Ordinary share is based on the net revenue after taxation of £2,625,000 (2013: £2,350,000) and 33,475,958 (2013: 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 £19,399,000 (2013: £30,916,000), and on 33,475,958 (2013: 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 2014 £'000	Year to 31 March 2013 £'000
Total investments at fair value	**209,411**	179,446

The investment portfolio comprises 54 listed UK equity holdings. No holdings are traded on AIM.

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Opening book cost	**110,462**	103,944
Opening investment holding gains	**68,984**	44,429
Opening valuation	**179,446**	148,373
Movements in the year		
Purchases at cost	**108,868**	27,716
Sales – proceeds	**(99,255)**	(29,217)
– realised gains on sales	**32,800**	8,019
(Decrease)/increase in investment holding gains	**(12,448)**	24,555
Closing valuation	**209,411**	179,446
Closing book cost	**152,875**	110,462
Closing investment holding gains	**56,536**	68,984
	209,411	179,446

Notes to the Financial Statements continued
at 31 March 2014

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; and
- for fair value measurements in level 3 of the hierarchy, a reconciliation from the opening balances to the closing 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 2014			31 March 2013		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Equity investments	**209,411**	**–**	**209,411**	179,446	–	179,446
	209,411	**–**	**209,411**	179,446	–	179,446

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

	31 March 2014			31 March 2013		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Revolving Credit Loan Facility	**–**	**15,000**	**15,000**	–	15,000	15,000
Derivative financial instruments	**–**	**183**	**183**	–	554	554
	–	**15,183**	**15,183**	–	15,554	15,554

Details of the Revolving Credit Loan Facility are provided in note 14.

There were no level 3 investments.

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £617,000 (2013: £172,000) and £92,000 (2013: £33,000) 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.

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Net gains on investments at fair value though profit or loss		
Gains on sales	**32,800**	8,019
Changes in fair value	**(12,448)**	24,555
	20,352	32,574

A list of the investments by market value and an analysis of the investment portfolio by industrial or commercial sector are set on pages 14 and 15.

11 Significant Holdings

The Company has no holdings of 3% or more of the voting rights attached to shares that is material in the context of the financial statements.

12 Debtors

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Prepayments and accrued income	76	68
Due from brokers	587	–
Dividends receivable	407	643
	1,070	711

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

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Accruals	523	413
	523	413

The carrying amount for accruals disclosed above reasonably approximates to its fair value at the year end and is expected to be paid within a year from the Balance Sheet date.

14 Revolving Credit Loan Facility

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Falling due within one year	15,000	15,000
	15,000	15,000

On 19 December 2011, the Company agreed a £15,000,000 Floating Rate Revolving Credit Loan 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.

This facility is available for a five-year term from 19 December 2011 to 19 December 2016. The loan has been drawn down until 19 December 2014 and will be rolled over on a six monthly basis. Interest is payable at six month LIBOR plus a margin and mandatory 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.

On 10 February 2014, the Company agreed an additional £10,000,000 Floating Rate Revolving Credit Loan Facility with ING Bank N.V. This facility is available for a three-year term from 24 February 2014 to 24 February 2017. At 31 March 2014, no amounts had been drawn down on this facility.

Interest is payable on each advance at LIBOR plus a margin and mandatory costs. A commitment fee is payable at the rate of 0.4% if the average utilisation is less than 50% of the facility during the quarter or 0.35% if the average utilisation is 50% or more of the facility during the quarter.

* 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 on its £15,000,000 facility for a fixed rate of 4.2921% per annum until 19 December 2016.

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

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Opening valuation	(554)	(75)
Movement in fair value	371	(479)
Closing valuation	(183)	(554)

Notes to the Financial Statements continued

at 31 March 2014

16 Share Capital

	31 March 2014 £'000	31 March 2013 £'000
Allotted, called-up and fully paid:		
33,475,958 (2013: 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 26 July 2013 the Company was granted the 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

The Articles of Association prescribe that shareholders should have the opportunity to consider the future of the Company at regular intervals. At the Annual General Meeting held on 26 July 2013, shareholders voted to remove the obligation to convene a General Meeting during 2014 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 Annual General Meeting 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 their 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 £196,912,000 (2013: £177,151,000) and on 33,475,958 (2013: 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 2014 £'000	Year to 31 March 2013 £'000
Net revenue before finance costs and taxation	**2,950**	2,672
Management fee charged to capital	**(999)**	(857)
Increase/(decrease) in creditors	**105**	(796)
Decrease/(increase) in prepayments and accrued income	**228**	(145)
Net cash inflow from operating activities	**2,284**	874

21 Reconciliation of Net Cash Flows to Movements in Net Debt

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Decrease in cash in year	**(10,824)**	(1,005)
Movement in net funds	**(10,824)**	(1,005)
Net debt at beginning of year	**(2,039)**	(1,034)
Net debt at end of year	**(12,863)**	(2,039)

ANALYSIS OF NET DEBT

	1 April 2013 £'000	Cash flows £'000	31 March 2014 £'000
Cash at bank	12,961	(10,824)	**2,137**
Debt due in less than one year	(15,000)	–	**(15,000)**
	(2,039)	(10,824)	**(12,863)**

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 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 2014 was:

	31 March 2014 £'000	31 March 2013 £'000
Cash at bank	**2,137**	12,961
Debtors and prepayments	**1,070**	711
	3,207	13,672

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 Policy shown on page 8 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 Manager. The Board meets regularly and at 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.

Notes to the Financial Statements continued
at 31 March 2014

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, 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 are set out on pages 12 to 15.

The maximum exposure to market price risk is the fair value of investments of £209,411,000 (2013: £179,446,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2014 it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £2,094,000 (2013: £1,794,000). 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 Loan Facilities with ING Bank N.V. are floating rate facilities (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 rate on £15,000,000 of its 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 £3,000 (2013: £2,000).

The interest rate risk profile of the Company is given below.

If interest rates had reduced by 1% from those paid as at 31 March 2014 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 (2013: £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 £129,000 (2013: £20,000). The calculations are based on cash at bank, short-term deposits and the Revolving Credit Loan Facilities as at 31 March 2014 and these may not be representative of the year as a whole.

Due to the structure of the loan facilities, changes in interest rates would not have an effect on the fair value of the loans.

(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 £3.2 million cash at bank and short-term debtors which can satisfy its creditors and that as a closed end fund assets do not need to be liquidated to meet redemptions.

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

(vi) Use of Derivatives
It is 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 £15,000,000 Revolving Credit Loan 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 2014 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 2014 is as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Revolving Credit Loan Facilities	**15,000**	**3.22**	**0.22**
Derivative financial instruments	**183**	**1.07**	**2.72**
Financial liabilities upon which no interest is paid	**523**	**–**	**–**

22 Analysis of Financial Assets and Liabilities continued

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2013 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Revolving Credit Loan Facility	15,000	3.69	0.22
Derivative financial instruments	554	0.60	3.72
Financial liabilities upon which no interest is paid	413	–	–

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

	31 March 2014 £'000	31 March 2013 £'000
In one year or less	**15,523**	15,413
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**183**	554
	15,706	15,967

The Company had nil undrawn under the floating rate Revolving Credit Loan Facility at 31 March 2014 (2013: nil).

The Company had £10,000,000 undrawn under the floating rate Revolving Credit Loan Facility at 31 March 2014 (2013: nil).

The Company's Revolving Credit Loan Facilities are 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 facilities, 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 NSCI. 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 buy back 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.

Details of the Ordinary share capital are set out in note 16. Dividend payments are set out in note 8.

	31 March 2014 £'000	31 March 2013 £'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	**163,658**	144,259
Distributable revenue reserve	**4,595**	4,233
Total equity shareholders' funds	**196,912**	177,151

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

24 Commitments and Contingent Liabilities

At 31 March 2014, there were no capital commitments or contingent liabilities (2013: 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 Numis Smaller Companies Index (excluding Investment Companies) ("NSCI").

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 no bigger than the largest constituent of the NSCI, which represents the smallest 10% of the UK Stock Market by value. At the start of 2014, this was any company below £1.7 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 credit facilities of £25 million through ING Bank of which £15 million was drawn as at 31 March 2014. The Board has agreed to limit borrowings to 25% of shareholders' funds.

Benchmark (capital return)

For the year under review the benchmark was the NSCI. Prior to 1 April 2013, the benchmark was the FTSE SmallCap.

Gross Assets

£212,618,000 as at 31 March 2014.

Shareholders' Funds

£196,912,000 as at 31 March 2014.

Market Capitalisation

£169,221,000 as at 31 March 2014.

Capital Structure

As at 31 March 2014 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 the Annual General Meeting to be held after 30 November 2017 to release the Directors from the obligation to convene a General Meeting in 2019 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 NSCI over the financial year, subject to a maximum of 0.5% of the gross assets calculated at the end of the financial year. With effect from 1 April 2014, the management fee was reduced to 0.85% of the gross assets, with no performance fee. For further details see page 17.

Administration and Company Secretarial Fees

Secretarial and administrative services are provided by Capita Sinclair Henderson Limited, under an agreement dated 3 November 2011. Fees for these services of £103,000 were paid in the year to 31 March 2014, and are subject to an annual RPI uplift.

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 Association of the Company, being its Constitutional Document.

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
Montanaro UK Smaller Companies Investment Trust PLC.

Ongoing Charges (formerly TER)
Ongoing Charges are 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 Company's website: www.montanarouksmaller.co.uk.

Key Dates

31 March 2014	Company year end
June 2014	Annual results
4 July 2014	Record date for dividend
30 July 2014	Annual General Meeting
13 August 2014	Dividend payable
November 2014	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's shares are 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 Nineteenth Annual General Meeting of the Company will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Wednesday, 30 July 2014 at 12 noon for the following purposes:

Ordinary Business

RESOLUTION 1 – ORDINARY RESOLUTION
To receive and, if thought fit, to accept the Strategic Report, the Reports of the Directors and the Auditor and the audited financial statements for the year ended 31 March 2014.

RESOLUTION 2 – ORDINARY RESOLUTION
To receive and approve the Directors' Remuneration Report for the year ended 31 March 2014.

RESOLUTION 3 – ORDINARY RESOLUTION
To receive and approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report.

RESOLUTION 4 – ORDINARY RESOLUTION
To declare a final dividend of 7.50p per Ordinary share for the year ended 31 March 2014.

RESOLUTION 5 – ORDINARY RESOLUTION
To elect James Robinson as a Director of the Company.

RESOLUTION 6 – ORDINARY RESOLUTION
To re-elect Roger Cuming as a Director of the Company.

RESOLUTION 7 – ORDINARY RESOLUTION
To appoint KPMG LLP 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 before the Company and to authorise the Directors to determine their remuneration.

Special Business

RESOLUTION 8 – SPECIAL RESOLUTION
THAT in substitution for the Company's existing authority to make market purchases of Ordinary shares of 10p each in the capital of the Company ("Ordinary shares"), the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares, provided that:

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

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

(iii) the maximum price payable by the Company for each Ordinary share is the higher of (i) 105% of the average of the mid-market value of the Ordinary shares in the Company for the five business days prior to the date of the market purchase and (ii) the higher of the price of the last independent trade and the highest current bid as stipulated by Article 5(1) of Buy-Back and Stablisation Regulation 2003;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2015, 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 9 – ORDINARY RESOLUTION

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

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

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

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

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

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

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

RESOLUTION 10 – SPECIAL RESOLUTION

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

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

(i) to 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 £334,760 (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.

Notice of Annual General Meeting continued

RESOLUTION 11 – ORDINARY RESOLUTION

THAT, subject to the passing of Resolution 10 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 £334,760, 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 10 set out above.

RESOLUTION 12 – 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
23 June 2014

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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, 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 that Note can only be exercised by registered members of the Company.

Note 4: As at 20 June 2014 (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 20 June 2014 were 33,475,958 votes.

Note 5: Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, as amended and/or the purposes of Section 360B of the Companies Act 2006, the Company specifies that only those shareholders registered on the Register of Members of the Company as at 6.00 pm on 28 July 2014 (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 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.

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; and

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

Registered in England and Wales No. 3004101.

Form of Proxy

for use at the Nineteenth 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 Nineteenth Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Wednesday, 30 July 2014 at 12 noon and at any adjournment thereof.

Signature ______________________________

Dated ______________________________ 2014

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 and approve the Strategic Report, the Reports of the Directors and Auditor and the audited financial statements for the year ended 31 March 2014.			
RESOLUTION 2	To receive and approve the Directors' Remuneration Report for the year ended 31 March 2014.			
RESOLUTION 3	To receive and approve the Directors' Remuneration Policy			
RESOLUTION 4	To declare a final dividend of 7.50p per Ordinary share for the year ended 31 March 2014.			
RESOLUTION 5	To elect James Robinson as a Director of the Company.			
RESOLUTION 6	To re-elect Roger Cuming as a Director of the Company.			
RESOLUTION 7	To appoint KPMG LLP as Auditor and to authorise the Directors to determine their remuneration.			
RESOLUTION 8	That the Company be authorised to make market purchases of up to 14.99% of its Ordinary shares.			
RESOLUTION 9	To allot relevant securities in accordance with Section 551 of the Companies Act 2006.			
RESOLUTION 10	To allot relevant securities for cash and to disapply pre-emption rights, in accordance with Sections 570 and 573 of the Companies Act 2006.			
RESOLUTION 11	To issue shares held in Treasury at a discount to net asset value.			
RESOLUTION 12	To 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 9:00am – 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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF or by hand during normal business hours to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, 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.

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