Montanaro UK Smaller Companies Investment Trust PLC ("MUSCIT")

Half-yearly Report for the six months ended 30 September 2011
MUSCIT was launched in March 1995 and is listed on the London Stock Exchange.

Investment Objective

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

No unquoted investments are permitted.

Investment Policy

The Company seeks to achieve its objective and to diversify risk by investing in a portfolio of quoted UK smaller companies. At the time of initial investment, a potential investee company must be profitable and smaller than the largest constituent of the RBS HGSC Index, which represents the smallest 10% of the UK Stock Market by value. At the end of September 2011, the largest company in the RBS HGSC had a market capitalisation of over £1.6 billion in size. The Manager focuses on the smaller end of this Index.

In order to manage risk the Manager will normally limit any one holding to a maximum of 4% of the Company's investments. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 30% of total investments with Board approval required for exposure to be above 25%.

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

The Board, in consultation with the Manager, is responsible for determining the gearing strategy of the Company. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has a credit facility of £15 million through ING Bank of which £15 million was drawn as at 30 September 2011. The Board has agreed to limit borrowings to 25% of shareholders' funds.

Investment Philosophy

Over the very long-term SmallCap has delivered superior returns relative to LargeCap. Less detailed research is a primary cause of continuing inefficiency in the asset class. The Manager believes that it can exploit this inefficiency by devoting its significant in-house analytical resource to both proprietary idea generation and research.

The Manager further believes that a conservative, long-term approach to investing in high quality companies will deliver superior returns and has developed its own screening and valuation tools to help identify companies which are not only of the highest quality but also undervalued. Key to success is emphasis on management quality, first hand research and meetings with management, as well as experience and commonsense.

Highlights
for the six months to 30 September 2011

Results
> Net Asset Value ("NAV") including current period revenue: -7% (£131 million)
> Share price: -8%
> FTSE SmallCap Index: -14%

	As at 30 September 2011	As at 31 March 2011
NAV per Ordinary share (including current period revenue)	**390.32p**	421.65p
Ordinary share price	**326.00p**	355.00p

NAV Performance vs SmallCap
(to 30 September 2011)

	6 months	**3 years**	**5 years**	**Since inception March 1995**
	%	%	%	%
NAV (excluding current period revenue)	(6.7)	51.3	28.2	291.9
FTSE SmallCap Index	(13.9)	7.5	(34.4)	33.5
Outperformance	7.2	43.8	62.6	258.4

Capital Structure
As at 30 September 2011 the Company had 33,475,958 Ordinary shares of 10p each in issue (none of which were held in Treasury).

Manager's Review

In the last two financial years, the NAV of the Company has increased by 54% and 39% respectively. So perhaps it is no surprise that the market experienced some profit taking in the first half of the current year. Despite being geared through the period, we continued to outperform in difficult markets thanks to good stock selection.

The first quarter ended 30 June 2011 started well: M&A activity remained strong; the earnings season in the spring was positive and exceeded expectations. However, the after effects of the Japanese earthquake on the 11 March, concerns about a Greek default and mixed economic data in Europe and the United States all led to increased volatility.

The second financial quarter was a difficult period for equity markets with further concerns of a global slowdown and fears of renewed European sovereign contagion issues surrounding the potential Greek default. The FTSE-SmallCap Index fell by over 14% in the quarter.

Amidst all the doom and gloom, the portfolio benefitted from one takeover (Group NBT – domain management for the internet) and several strong individual performances where stocks rose by 20% or more: Immunodiagnostic Systems (healthcare company involved in Vitamin D diagnostic testing); Dignity (funeral Services); Booker (food wholesaling) and NCC (software escrow and web assurance). This shows that sound, fundamentally based stock selection can add value even when times are hard.

Outlook

It is unsurprising that investors are cautious. The outlook for global economic growth is largely in the hands of politicians. To date, they have been slow to grasp the scale of the challenge and to take decisive action to restore confidence. Investors dislike uncertainty and have been reducing equities in portfolios in favour of bonds, cash and gold. As a result, equity valuations are close to their 2008 lows.

Having lived through several economic and stock market cycles since 1991 when Montanaro was formed, it is clear that the best time to invest is when the economic outlook is uncertain, investor sentiment is negative, valuations based on both price/earnings and price/book are attractive, company balance sheets are strong and there is plenty of cash around. These conditions prevail today. Sentiment can be very fickle and tends to change unexpectedly and unpredictably. We are currently fully invested and indeed the most geared we can recall, a reflection of our contrarian view and confidence about the future.

Montanaro Asset Management
29 November 2011.

Thirty Largest Holdings
as at 30 September 2011

Holding	Sector	Value £'000	% of portfolio	Market cap £m
Brooks Macdonald Group	General Financials	4,697	3.3	136
Dialight	Electronic and Electrical Equipment	4,620	3.2	245
Oxford Instruments	Electronic and Electrical Equipment	4,444	3.1	446
NCC Group	Software and Computer Services	4,355	3.1	230
SDL	Software and Computer Services	4,063	2.8	514
Fenner	Industrial Engineering	4,056	2.8	601
Devro	Food Producers	4,055	2.8	387
James Fisher	Industrial Transportation	3,944	2.8	255
Immunodiagnostics	Health Care Equipment and Services	3,932	2.8	291
Ocean Wilsons Holdings	Industrial Transportation	3,928	2.8	447
Ten Largest Holdings		**42,094**	**29.5**	
Victrex	Chemicals	3,826	2.7	918
Latchways	Support Services	3,734	2.6	119
Domino Printing Sciences	Electronic and Electrical Equipment	3,696	2.6	513
Domino's Pizza	Travel and Leisure	3,564	2.5	722
Brammer	Support Services	3,545	2.5	286
Shaftesbury	Real Estate/ Real Estate Investment Trusts	3,517	2.5	1,167
Genus	Pharmaceuticals and Biotechnology	3,432	2.4	632
Dignity	General Retailers	3,400	2.4	465
Albemarle & Bond Holdings	General Financials	3,311	2.3	194
Croda International	Chemicals	3,300	2.3	2,233
Twenty Largest Holdings		**77,419**	**54.3**	
Ricardo	Support Services	3,281	2.3	180
Abcam	Pharmaceuticals and Biotechnology	3,263	2.3	663
Consort Medical	Health Care Equipment and Services	3,197	2.3	152
Mears Group	Support Services	3,191	2.2	236
M.P. Evans Group	Food Producers	3,028	2.1	228
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	2,941	2.1	326
AG Barr	Beverages	2,858	2.0	464
Chemring Group	Aerospace and Defence	2,748	1.9	1,026
Fidessa Group	Software and Computer Services	2,748	1.9	579
Premier Oil	Oil and Gas Producers	2,605	1.8	1,626
Thirty Largest Holdings		**107,279**	**75.2**	

Analysis of Investment Portfolio by FTSE Classification
as at 30 September 2011

Classification	**% of portfolio**
UK FTSE 250	30.8
UK FTSE SmallCap	39.2
UK FTSE Fledgling	7.8
UK AIM/PLUS	17.1
UK other equities	5.1
	100.0

Interim Management Report and Responsibility Statement

Interim Management Report

The important events that have occurred during the period under review and the key factors influencing the financial statements are set out in the Manager's Review.

The principal risks and uncertainties for the remaining six months of the financial year are reviewed in the Outlook section of the Manager's Review. The Company actively monitors its counterparty exposures and has been particularly vigilant during the period.

The principal risks facing the Company are substantially unchanged since the date of the Annual Report for the year ended 31 March 2011 and continue to be as set out in that report on pages 14 to 16 and pages 35 to 37.

Risks faced by the Company include, but are not limited to, Investment Manager, investment and strategy, discount volatility, credit risk, market price risk, interest rate risk, liquidity risk, gearing, regulatory risk, operational risk and financial risk, banking, reputational and Company viability.

Under the Listing Rules the Manager is regarded as a related party of the Company. The amounts paid to the Manager during the period were £798,000 (30 September 2010: £622,000; year to 31 March 2011: £2,162,000). At 30 September 2011, the amount due to Montanaro Asset Management Limited, included in creditors, was £276,000.

However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies. Therefore in terms of FRS 8 "Related Party Transactions" the Manager is not considered a related party.

Responsibility Statement

The Directors confirm that to the best of their knowledge:

● the condensed set of financial statements has been prepared in accordance with the Statement on Half-yearly Financial Reports issued by the UK Accounting Standards Board and gives a true and fair view of the assets, liabilities and financial position of the Company;

● the Manager's Review (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;

● the Statement of Principal Risks and Uncertainties above is a fair review of the information required by DTR 4.2.7R; and

● the financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

This Half-yearly Report was approved by the Board of Directors on 29 November 2011 and the above responsibility statement was signed on its behalf by David Gamble, Chairman.

Income Statement (unaudited)
for the six months to 30 September 2011

	6 months to 30 September 2011			6 months to 30 September 2010			Year to 31 March 2011		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments designated at fair value through profit or loss	**-**	**(9,106)**	**(9,106)**	-	20,804	20,804	-	40,006	40,006
Dividends and interest	**1,915**	**-**	**1,915**	1,620	-	1,620	3,639	-	3,639
Management fee	**(399)**	**(399)**	**(798)**	(311)	(311)	(622)	(688)	(688)	(1,376)
Management performance fee	**-**	**-**	**-**	-	-	-	-	(786)	(786)
Other expenses	**(142)**	**-**	**(142)**	(169)	-	(169)	(316)	-	(316)
Net return before finance costs and taxation	**1,374**	**(9,505)**	**(8,131)**	1,140	20,493	21,633	2,635	38,532	41,167
Interest payable and similar charges	**(48)**	**(48)**	**(96)**	(64)	(64)	(128)	(119)	(119)	(238)
Net return before taxation	**1,326**	**(9,553)**	**(8,227)**	1,076	20,429	21,505	2,516	38,413	40,929
Taxation (Note 2)	**-**	**-**	**-**	-	-	-	-	-	-
Net return after taxation	**1,326**	**(9,553)**	**(8,227)**	1,076	20,429	21,505	2,516	38,413	40,929
Return per Ordinary share	**3.96p**	**(28.54)p**	**(24.58)p**	3.21p	61.03p	64.24p	7.51p	114.75p	122.26p

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are presented under guidance issued by the Association of Investment Companies ("AIC").

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

No Statement of Total Recognised Gains and Losses has been prepared as all such gains and losses are shown in the Income Statement.

Reconciliation of Movements in Shareholders' Funds (unaudited)
for the six months to 30 September 2011

6 months to 30 September 2011	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 1 April 2011	**3,348**	**19,307**	**1,362**	**4,642**	**108,565**	**3,929**	**141,153**
Fair value movement of investments	**-**	**-**	**-**	**-**	**(9,106)**	**-**	**(9,106)**
Costs allocated to capital	**-**	**-**	**-**	**-**	**(447)**	**-**	**(447)**
Net revenue for the period	**-**	**-**	**-**	**-**	**-**	**1,326**	**1,326**
Dividends paid in period	**-**	**-**	**-**	**-**	**-**	**(2,263)**	**(2,263)**
As at 30 September 2011	**3,348**	**19,307**	**1,362**	**4,642**	**99,012**	**2,992**	**130,663**
6 months to 30 September 2010							
As at 1 April 2010	3,348	19,307	1,362	4,642	70,152	2,484	101,295
Fair value movement of investments	-	-	-	-	20,804	-	20,804
Costs allocated to capital	-	-	-	-	(375)	-	(375)
Net revenue for the period	-	-	-	-	-	1,076	1,076
Dividends paid in period	-	-	-	-	-	(1,071)	(1,071)
As at 30 September 2010	3,348	19,307	1,362	4,642	90,581	2,489	121,729
Year to 31 March 2011							
As at 1 April 2010	3,348	19,307	1,362	4,642	70,152	2,484	101,295
Fair value movement of investments	-	-	-	-	40,006	-	40,006
Costs allocated to capital	-	-	-	-	(1,593)	-	(1,593)
Net revenue for the year	-	-	-	-	-	2,516	2,516
Dividends paid in the year	-	-	-	-	-	(1,071)	(1,071)
As at 31 March 2011	3,348	19,307	1,362	4,642	108,565	3,929	141,153

Balance Sheet (unaudited)
as at 30 September 2011

	As at 30 September 2011 £'000	As at 30 September 2010 £'000	As at 31 March 2011 £'000
Fixed assets			
Investments designated at fair value through profit and loss	**142,732**	133,549	153,175
Current assets			
Debtors	**2,937**	486	3,838
Cash at bank	**922**	2,968	406
	3,859	3,454	4,244
Creditors: amounts falling due within one year			
Other creditors	**(928)**	(274)	(1,266)
Revolving credit facility	**(15,000)**	(15,000)	(15,000)
	(15,928)	(15,274)	(16,266)
Net current liabilities	**(12,069)**	(11,820)	(12,022)
Total assets less current liabilities	**130,663**	121,729	141,153
Net assets	**130,663**	121,729	141,153
Share capital and reserves			
Called-up share capital	**3,348**	3,348	3,348
Share premium account	**19,307**	19,307	19,307
Capital redemption reserve	**1,362**	1,362	1,362
Special reserve	**4,642**	4,642	4,642
Capital reserve	**99,012**	90,581	108,565
Distributable revenue reserve	**2,992**	2,489	3,929
Total equity shareholders' funds	**130,663**	121,729	141,153
Net asset value per Ordinary share	**390.32p**	363.63p	421.65p

Summarised Statement of Cash Flows (unaudited)
as at 30 September 2011

	Note	As at 30 September 2011 £'000	As at 30 September 2010 £'000	As at 31 March 2011 £'000
Net cash inflow from operating activities	**3**	**397**	712	1,895
Servicing of finance				
- Interest and similar charges paid		**(98)**	(94)	(286)
Net cash outflow from servicing of finance		**(98)**	(94)	(286)
Capital expenditure and financial investment				
- Purchases of investments		**(13,340)**	(40,190)	(54,882)
- Sales of investments		**15,820**	36,415	47,554
Net cash inflow/(outflow) from capital expenditure and financial investment		**2,480**	(3,775)	(7,328)
Equity dividends paid		**(2,263)**	(1,071)	(1,071)
Net cash inflow/(outflow) before financing		**516**	(4,228)	(6,790)
Financing				
- Proceeds of short-term credit facility		**-**	5,000	5000
Net cash inflow from financing		**-**	5,000	5000
Increase/(decrease) in cash	**4**	**516**	772	(1,790)

Notes to the Financial Statements
as at 30 September 2011

1 Financial information
The financial information contained in this report does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006. The comparative financial information for the year ended 31 March 2011 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information for the six months ended 30 September 2011 and 30 September 2010 has not been audited or reviewed by the Company's Auditor pursuant to the Auditing Practices Board guidance on such reviews.

The information for the year ended 31 March 2011 has been extracted from the latest published audited financial statements, which have been filed with the Registrar of Companies. The Report of the Auditors on those financial statements was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Company has adequate financial resources to meet its investment commitments and as a consequence, the Directors believe that the Company is well placed to manage its business risks. After making appropriate enquiries and due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, the Directors have a reasonable expectation that the Company has adequate available financial resources to continue in operational existence for the foreseeable future and accordingly have concluded that it is appropriate to continue to adopt the going concern basis in preparing the Half-yearly Report, consistent with previous years.

The financial statements are prepared on the basis of the accounting policies set out in note 1 of the annual report and accounts for the year ended 31 March 2011.

2 Tax credit/charge on ordinary activities

The tax charge for the half-year is nil (30 September 2010: nil; year to 31 March 2011: nil) based on an estimated effective tax rate of 0% for the year ending 31 March 2012. The estimated effective tax rate is 0% as investment gains are exempt from tax owing to the Company's status as an investment trust and there is expected to be an excess of management expenses over taxable income.

3 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	6 months to 30 September 2011 £'000	6 months to 30 September 2010 £'000	Year to 31 March 2011 £'000
Net return before finance costs and taxation	**(8,131)**	21,633	41,167
Losses/(gains) on investments designated at fair value through profit or loss	**9,106**	(20,804)	(40,006)
(Decrease)/increase in creditors	**(638)**	28	825
Decrease/(increase) in prepayments and accrued income	**60**	(145)	(91)
Net cash inflow from operating activities	**397**	712	1,895

4 Reconciliation of net cash flows to movements in net debt

	6 months to 30 September 2011 £'000	6 months to 30 September 2010 £'000	Year to 31 March 2011 £'000
Increase/(decrease) in cash in the period	**516**	772	(1,790)
Proceeds of credit facility	**-**	(5,000)	(5,000)
Movement in net debt	**516**	(4,228)	(6,790)
Net debt at beginning of period	**(14,594)**	(7,804)	(7,804)
Net debt at end of period	**(14,078)**	(12,032)	(14,594)

5 Analysis of net debt

	As at 1 April 2011 £'000	Cash flows £'000	**As at 30 September 2011 £'000**
Cash at bank	406	516	**922**
Debt due in less than one year	(15,000)	-	**(15,000)**
	(14,594)	516	**(14,078)**

Directors

David Gamble (Chairman)
Roger Cuming
Kathryn Matthews
Michael Moule

Advisers

Manager
Montanaro Asset Management Limited
53 Threadneedle Street
London EC2R 8AR

Tel: 020 7448 8600
Fax: 020 7448 8601
www.montanaro.co.uk
info@montanaro.co.uk

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

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

Company Secretary, Administrator and Registered Office
Capita Sinclair Henderson Limited
(Trading as Capita Financial Group – Specialist Fund Services)
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel: 01392 412 122
Fax: 01392 253 282

Auditor
KPMG Audit Plc
100 Temple Street
Bristol BS1 6AG

Solicitors
Norton Rose LLP
3 More London Riverside
London SE1 2AQ

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

Brokers
Canaccord Genuity Limited
Cardinal Place
7th Floor
80 Victoria Street
London SW1E 5JL
Tel: 020 7050 6500
Fax: 020 7050 6501
www.canaccordgenuity.com

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
Website: www.montanarouksmaller.co.uk

National Storage Mechanism
A copy of the Half-yearly Report 2011 will be submitted shortly to the National Storage Mechanism ("NSM") and will be available for inspection at the NSM, which is situated at: www.hemscott.com/nsm.do.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.

END