

ROYCE FOCUS TRUST INC  
Form N-CSR  
March 03, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT**  
**OF**  
**REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-05379

Name of Registrant: Royce Focus Trust, Inc.

Address of Registrant: 1414 Avenue of the Americas  
New York, NY 10019

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Date of fiscal year end: December 31  
Date of reporting period: July 1, 2003 - December 31, 2003

**Item 1: Reports to Shareholders**

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*2003 Annual Report*

**THE  
ROYCE  
FUNDS**

*Value Investing In Small Companies  
For More Than 25 Years*

ROYCE VALUE TRUST  
ROYCE MICRO-CAP TRUST  
ROYCE FOCUS TRUST

[www.roycefunds.com](http://www.roycefunds.com)

## A FEW WORDS ON CLOSED-END FUNDS

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***Royce & Associates, LLC manages three closed-end funds: Royce Value Trust, the first small-cap value closed-end fund offering; Royce Micro-Cap Trust, the only micro-cap closed-end fund; and Royce Focus Trust, a closed-end fund that invests in a limited number of domestic companies.***

A closed-end fund is an investment company whose shares are listed on a stock exchange or are traded in the over-the-counter market. Like all investment companies, including open-end mutual funds, the assets of a closed-end fund are professionally managed in accordance with the investment objectives and policies approved by the fund's Board of Directors. A closed-end fund raises cash for investment by issuing a fixed number of shares through initial and other public offerings which may include periodic rights offerings. Proceeds from the offerings are invested in an actively managed portfolio of securities. Investors wanting to buy or sell shares of a publicly traded closed-end fund after the offerings must do so on a stock exchange or the Nasdaq market, as with any publicly traded stock. This is in contrast to open-end mutual funds, where the fund sells and redeems its shares on a continuous basis.

**A CLOSED-END FUND  
OFFERS SEVERAL  
DISTINCT ADVANTAGES  
NOT AVAILABLE FROM  
AN OPEN-END FUND  
STRUCTURE**

- Since a closed-end fund does not issue redeemable securities or offer its securities on a continuous basis, it does not need to liquidate securities or hold uninvested assets to meet investor demands for cash redemptions, as an open-end fund must.
- In a closed-end fund, not having to meet investor redemption requests or invest at inopportune times is ideal for value managers who attempt to buy stocks when prices are depressed and sell securities when prices are high.
- A closed-end fund may invest more freely in less liquid portfolio securities because it is not subject to potential stockholder redemption demands. This is particularly beneficial for Royce-managed closed-end funds, which invest in small- and micro-cap securities.
- The fixed capital structure allows permanent leverage to be employed as a means to enhance capital appreciation potential.

□ Unlike open-end funds, our closed-end funds are able to distribute capital gains on a quarterly basis. Each of the Funds has adopted a quarterly distribution policy for its common stock.

***We believe that the closed-end fund structure is very suitable for the long-term investor who understands the benefits of a stable pool of capital.***

### **WHY DIVIDEND REINVESTMENT IS IMPORTANT**

A very important component of an investor's total return comes from the reinvestment of distributions. By reinvesting distributions, our investors can maintain an undiluted investment in a Fund. To get a fair idea of the impact of reinvested distributions, please see the charts on pages [13](#), [15](#) and [17](#). For additional information on the Funds' Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, see page [11](#).

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**THE ROYCE FUNDS**

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## **ANNUAL REPORT REFERENCE GUIDE**

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***For more than 25 years, our approach has focused on evaluating a company's current worth □ our assessment of what we believe a knowledgeable buyer might pay to acquire the entire company, or what we think the value of the company should be in the stock market. This analysis takes into consideration a number of relevant factors, including the company's future prospects. We select these securities using a risk-averse value approach, with the expectation that their market prices should increase***

*toward our estimate of their current worth, resulting in capital appreciation for Fund investors.*

|   |                                 |
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#### NAV AVERAGE ANNUAL TOTAL RETURNS Through December 31, 2003

| FUND                         | 4TH<br>QUARTER<br>2003* | JUL-DEC<br>2003* | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR | SINCE INCEPTION<br>DATE |
|------------------------------|-------------------------|------------------|--------|--------|--------|---------|-------------------------|
| <b>Royce Value Trust</b>     | 13.38%                  | 23.75%           | 40.80% | 11.04% | 12.25% | 12.64   | 12.37%/26/86            |
| <b>Royce Micro-Cap Trust</b> | 15.58                   | 30.36            | 55.55  | 18.28  | 15.64  | 14.27   | 14.22/14/93             |
| <b>Royce Focus Trust</b>     | 16.44                   | 30.06            | 54.33  | 14.11  | 14.34  | n.a.    | 12.28 11/1/96**         |
| Russell 2000                 | 14.52                   | 24.92            | 47.25  | 6.27   | 7.13   | 9.47    |                         |

Royce Value Trust's 15-year NAV average annual total return for the period ended 12/31/03 was 13.27%.

The Funds' recent performance was achieved during a period of high returns for small- and micro-cap stocks, and it is not likely that this level of returns will continue in the future.

\*Not annualized.

\*\*Date Royce & Associates, LLC assumed investment management responsibility.

**LETTER TO OUR STOCKHOLDERS**

Charles M. Royce, *President*

Although none of our closed-end funds concentrate solely on dividend-paying stocks, we think highly of the value of dividends here at The Royce Funds. We think that the old adage of Ben Graham and David Dodd, that the primary purpose of a business is to pay dividends to its owners, in many ways still holds true today. Why do we and two of the Founding Fathers of value investing put so much stock in the payment of dividends? The most obvious reason is that, with rare exceptions, companies that pay dividends are almost always profitable businesses. Companies can choose to reinvest their earnings, pay them out as dividends or reinvest a portion and pay out the rest, but the fact remains that payment of a dividend is an important measure of profitability.

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### CURB YOUR ENTHUSIASM

2003 will likely enter the annals of stock market history as one of the more successful years for equities in recent times. Unlike the days of stratospheric returns for large-cap and/or Technology issues that characterized the late '90s, the past year embraced large and small stocks alike, a tide of more or less steadily rising prices that seemed to lift nearly every boat which the market deemed seaworthy. Such a year was especially welcome to investors following the long and dreary bear market that began in March 2000. Yet to many observers, this long-anticipated recovery emerged slowly, almost subtly, from the wings of the bear's prolonged turn on the equity stage. The rebound actually began in early October 2002, when the major indices — the S&P 500, Russell 2000 and Nasdaq Composite — reached their most recent lows. Yet 2002 was a year of negative performance for the majority of stocks, and the brief rally that carried the market through October and November fizzled in December and did not regain its momentum until March of 2003.

Much of this can be attributed to a sluggish economy and the anxious days preceding the war with Iraq. The initial reports out of Baghdad seemed to indicate that our military's efforts were not meeting with the unqualified success that many of us had expected. Yet once it became clear that these reports were erroneous and that the U.S. was on its way to a relatively fast victory, the stock market responded generously. For each index, April and May were two of the three strongest performing months of 2003. By fall, news of strong GDP growth and stable levels of unemployment provided any additional fuel that may have been needed to

keep the rally running, and run it did, right through the beginning of 2004. **Even the stunning news of illegal and unethical profiteering on the part of certain mutual fund companies that permitted late trading and market timing did not slow the market's furious ascent. The only unanswered questions appeared to be, how much longer would the rally run and how much higher would returns climb before a correction occurred?**

With the economy seeming to grow stronger each day, the international situation stabilizing somewhat (at least as of this writing) and reports of new mutual fund scandals subsiding (for now, anyway), we would understand anyone who felt that the past fifteen months have heralded only the beginning of an extended period of high returns. We simply would not agree. Like many experienced value investors, we habitually get a little tense whenever stock market returns run up virtually unimpeded for months at a time. It simply goes against the grain of what we have learned in three-plus decades of investing. We are not calling for a return to the bear market environment that lasted from March 2000 through October 2002, but we also do not see the direction of the market racing consistently upward. **Just as we argued at the end of last year that the market was not**

as bad as it looked, we would now submit that the market is not quite as vigorous as it appears. We think that it is entirely rational to be exuberant about 2003's high returns, but that similar sentiments should not apply to 2004 and beyond because no one really knows what the market's next move will be. So before the heralds rush forth announcing that all is well because the bears (and the folks delivering subpoenas) have all left the building, we would advise investors to curb their enthusiasm.

## SMALLVILLE

We are aware — and not unhappily — that a look at both the short- and long-term returns for small-cap stocks through the end of 2003 may make our plea to curb one's enthusiasm sound a bit silly. **Our asset class once again finished the year ahead of its large-cap counterpart, with the Russell 2000 up 47.3% versus 28.7% for the S&P 500. It marked the fifth consecutive year that the Russell 2000 outperformed the S&P 500, in spite of the fact that 2003 was the large-cap index's best calendar year of performance since 1998.** The small-cap index also held a performance advantage over its large-cap sibling from the October 2002 market lows and for the three-year and five-year periods ended 12/31/03. The resurgent equity market gave a boost to the Nasdaq Composite as well. It bested both the S&P 500 and the Russell 2000 in 2003 with a 50.0% return.

**The rally has so far favored two kinds of stocks that historically have not been the first coursers out of the gate at the onset of a bull market — Technology and micro-cap stocks. Their strong performances, especially the latter's, helped the Russell 2000 to enjoy its best calendar-year performance since the index's inception on 12/31/78.**

So before the heralds rush forth announcing that all is well because the bears (and the folks delivering subpoenas) have all left the building, we would advise investors to curb their enthusiasm.

Another reason for our affection is that consistent dividend payouts help to reduce volatility by providing an investor with a steady stream of income. This is arguably a more significant benefit for small-cap stocks than it is for their larger siblings because the diminutive

## LETTER TO OUR STOCKHOLDERS

While this was terrific news for small-cap investors like ourselves, we are somewhat leery of the reversal of what we regard as the typical order of market rallies. Although Technology stocks suffered more than any other equity sector during the bear market — making them arguably ripe for a rally — it does not stand to reason that their previous travails made it necessary for them to *lead* a subsequent rebound for stocks. **Most bear markets have ended with a flight to quality.**

stature of small companies often makes them inherently more volatile. We also believe that having money upfront, or cash in hand, offers advantages as well. While this is true in any market climate, it can be especially crucial in low- or negative-return environments when stock prices are stalling or tumbling.

Within the realm of small-cap stocks, the search for dividend-paying companies can be quite interesting because many small-cap investors have been led to believe that such companies cannot be found. Investors (especially institutional investors) utilizing a dividend-discount model □ those searching for □total return,□ or a combination of long-term growth and current income □ are trained to look almost

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**Historically, investors begin to flock, sometimes slowly, to companies with solid records of earnings or other indicators of underlying quality. We are not sure what has made the current rally unique in this regard, but its peculiar start is another reason why we think that we have not entered a sustainable period of high returns for stocks.**

#### **EVERYBODY LOVES VALUE**

One might expect that a rally led by two of the more volatile segments of the market would mean bad news for value stocks, even those in the micro-cap sector. We are happy to report that this was not quite the case in 2003. Tech and micro-cap led the way, but equities as a whole performed well. Value stocks began to come on later in the year, especially in the fourth quarter, in which the Russell 2000 Value index outpaced the Russell 2000 Growth index, 16.4% versus 12.7%. This strong fourth-quarter push allowed the small-cap value index to narrow the performance gap with growth, as small-cap value was up 46.0% in 2003 versus 48.5% for small-cap growth. Small-cap growth's outperformance period included an unusual first quarter in which returns for both indices were negative. If one needed any further proof that 2003 was an odd year, we would call their attention to the fact that small-cap value lost ground to growth in the first quarter decline and then gained ground against it during the fourth quarter upswing. Strange days indeed.

As dubious as we are about the long-term viability of the current rally, we were cheered by the strong showing turned in by small-cap value stocks late in the year and throughout the 15-month rally. In fact, stretching back to the early days of the bear market in March 2000, small-cap value has performed well both on an absolute and relative basis. From the small-cap market peak on 3/9/00 through 12/31/03, the Russell 2000 Value index was up 73.1% versus a loss of 44.2% for the Russell 2000 Growth index. Although better down market returns in the bear-market period between March 2000 and October 2002 were a critical component of small-cap value's edge during the current market cycle,

perhaps equally important has been small-cap value's participation in the rally. From the small-cap market low on 10/9/02 through 12/31/03, the Russell 2000 Value index was up 69.8% versus a gain of 76.7% for its growth counterpart, which means that during this time, small-cap value captured 91% of small-cap growth's upward surge. **The strong down-market performance of small-cap value combined with the competitive returns that it has turned in during the market's recovery helped small-cap value to hold a performance edge for the three-, five-, 10-, 15-, 20- and 25 -year periods ended 12/31/03.**

#### STILL STANDING

Small-cap value's solid performance benefited *The Royce Funds*, as did healthy returns by Technology and micro-cap stocks. In fact, each portfolio's relative weightings in micro-caps, Technology stocks and more traditional value issues greatly influenced 2003's returns. Micro-Cap Trust and Focus Trust — portfolios with relatively heavier weightings in at least one of the first two areas — enjoyed the highest calendar-year returns and outperformed the Russell 2000 for the year. However, we were very pleased with the performance of all three of our closed-end funds in 2003. Although besting the benchmark remains a worthy goal for each portfolio, we would rather see strong absolute performances for the funds, and 2003 provided plenty of that. **More importantly from our perspective, all of *The Royce Funds* in this report outperformed the Russell 2000 from its peak on 3/9/00, as well as for the applicable three-, five- and 10-year periods ended 12/31/03. We are more interested in the long-term and full market-cycle performance picture because we believe that these periods, which include both up and down market phases, more accurately reflect the success or failure of a particular investment vehicle or approach.**

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exclusively among mid- and large-cap stocks. However, as we have often pointed out, the small-cap universe provides fertile ground for yield-loving equity investors. As of 12/31/03, of the approximately 7,300 companies with market capitalizations less than \$2 billion, more than 1,500 pay dividends and more than 900 of those have yields of 2% or greater (Source: FactSet).

One might ask why a small company would choose to pay dividends. Wouldn't that business be better off reinvesting its profits? The truth is that many small companies earn more than they need in terms of reinvestment in the business. This excess profit is known as free cash flow, which is one of the key qualitative components that we look for in any company, along with strong balance sheets and an established record of earnings. A company has several choices as to what it does with these funds: It can hold on to the cash, use it to purchase shares of its own stock or pay it out to shareholders in the form of dividends.

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## LETTER TO OUR STOCKHOLDERS

In our view, 2003 offered a good reason for taking the long view. A wildly successful year by nearly any measure, it was also an exceptional year for more than the reasons normally implied by that term. While our Funds certainly profited from the market's favor toward micro-caps, Technology and other issues, we remain somewhat cynical about the nature of the recent rally. **Seeing many of our holdings appreciate in price was gratifying, but we cannot avoid the suspicion that prices rose primarily for what we would argue were all the wrong reasons – speculation as opposed to investment, a low-interest rate environment (which made investment options in fixed income securities look far less attractive relative to equities) and a post-bear-market euphoria that seemed to push prices higher and higher while scant attention was being paid to underlying quality.** We were surprised to see speculative stocks do so well from the October 2002 bottom through the end of 2003, though it was somewhat gratifying to see some companies with stronger earnings begin to participate late in the year.

### THE HISTORY CHANNEL PRESENTS...

From a performance standpoint, small-cap has so far outpaced large-cap in the current decade. In recognizing this, we wondered what the decade-by-decade performance story had been historically for each asset class. This led us to an examination of stock-market returns from 1930 through 1999 to see what, if any, performance patterns emerged for small- and large-cap stocks. Although we realized that there were distinctive stories behind each ten-year period's returns, both large- and small-cap stocks repeated a specific pattern that held true for every decade from the '30s through the '90s. During that 70-year period, large-cap stocks led

#### CRSP SMALL-CAP DECILE COMPOSITES

Decade-by-Decade Cumulative Results

|       | CRSP 6-10 | S&P 500 | SPREAD |
|-------|-----------|---------|--------|
| 1930s | 47.6%     | 2.3%    | 45.4%  |
| 1940s | 328.9     | 138.7   | 190.2  |
| 1950s | 438.3     | 483.3   | -45.0  |

|       |       |       |        |
|-------|-------|-------|--------|
| 1960s | 218.8 | 112.3 | 106.6  |
| 1970s | 150.1 | 76.5  | 73.6   |
| 1980s | 304.7 | 401.5 | -96.8  |
| 1990s | 299.1 | 432.9 | -133.8 |

in the high-return decades of the 1950s, 1980s and 1990s, while small-caps were out in front during the low- or normal-return decades of the 1930s, 1940s, 1960s and 1970s. This pattern has been repeated so far in the current decade, with small-caps having held a significant performance

edge over large-caps in a decidedly low-return period for the market as a whole. In one final tidbit of asset-class trivia, we found that both asset classes enjoyed a lengthy period of outperformance during each decade. In fact, small-cap stocks had at least a six-year period of outperformance in every 10-year period (see chart below), including those in which they underperformed. This was the case even in the the 1980s and 1990s, decades typically thought of as dominated by large-caps.

We do not expect small-caps to lead in every performance period or in every calendar year through decade's end. In fact, we expect leadership to alternate between small- and large-caps, especially in the near term. Does this mean that small-caps may be at a disadvantage in the coming months? Not necessarily. At current price-to-earnings levels, significant price appreciation through multiple expansion would be much harder to come by. In the next phase of the market, we believe that returns will come *via* improving earnings, not multiple expansion. Given their economic leverage and the simplicity of their businesses, we believe that economic improvements should more directly affect small-caps' bottom lines, which could put small-caps in a leading position vis-a-vis earnings growth.

The potential upward movement of interest rates and their impact on P/E ratios is another area that would seem

In the next phase of the market, we believe that returns will come *via* improving earnings, not multiple expansion. Given their economic leverage and the simplicity of their businesses, we believe that economic improvements should more directly affect small-caps' bottom lines, which could put small-caps in a leading position vis-a-vis earnings growth.

Certain small companies choose the latter, although for many years it was more common for firms to opt for one of the first two choices, regardless of their size. We think that this will change as a result of the new tax legislation passed earlier this year, which gives more favorable tax treatment to dividends, thus offering companies more of an impetus to pay them out. The effect of this legislation is only beginning to be felt, yet we expect that its consequences will be dramatic, long lasting and potentially beneficial to small-cap investors who like dividends.

## LETTER TO OUR SHAREHOLDERS

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### *Trying to Learn from History*

to us to favor smaller companies. Although no one can accurately predict the path of interest rates, an increase after more than 20 years of overall decline seems reasonable, especially in a more robust economic environment. Rising interest rates are generally detrimental to equities as a whole. Since interest rates and P/E ratios tend to have an inverse relationship to each other, and larger companies generally have higher debt-to-capital ratios, an increase in interest rates would seemingly be more detrimental to larger companies because higher proportionate levels of debt would have a greater negative effect impact on their bottom lines. (As of 12/31/03, the composite debt-to-capital ratio for the S&P 500 was 49% versus 40% for the Russell 2000.)

### CLOSING BELL

We continue to believe that the returns generated by the recent rally, while entirely welcome, represent a snapback for stock prices, not a comeback for high returns. The market's dramatic upward move seems to us more of an anomalous event that occurred within the longer-term context of the current market cycle that began with a dramatic slide from the peak in March 2000. Most bull markets have begun with profitable companies taking the lead, while Technology and/or micro-cap stocks have followed in the later stages of the run-up. We find it especially peculiar in the aftermath of one of the biggest Technology rallies in history that these sectors led the recovery. Although any extended period

of negative returns from this point seems unlikely to us in the near-term, we suspect that there may be a correction within the next several months during which we believe that we will see a move to quality companies with solid

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earnings followed by a longer period of low, but generally positive returns. We would caution investors against thinking that 2003's rubber-band response to the bear market means a return to the investment climate of the mid-to-late '90s. Of course, when it comes to investing, our temperament resembles Larry David's cranky, fatalistic character on HBO's *Curb Your Enthusiasm*. When bad times come, we more or less expect it; when good times arrive, we're usually nervous, expecting it all to end soon.

The last five years have provided ample doses of each, with giddy peaks and chilling lows. Through it all, we maintained the same disciplined approach that we have used for 30 years. Just as we were not idiots when small-cap value went out of style, we did not suddenly become endowed with genius when our approach became attractive again. The extremes of the last two market cycles serve best as a reminder that building wealth requires time and patience.

We appreciate your continued support.

Sincerely,

Charles M. Royce  
*President*

W. Whitney George  
*Vice President*

Jack E. Fockler, Jr.  
*Vice President*

January 31, 2004

The performance data and trends outlined in this presentation are presented for illustrative purposes only. The thoughts concerning recent market movements and future prospects for small-company stocks are solely those of Royce & Associates, and, of course, there can be no assurance with regard to future market movements. Small- and micro-cap stocks may involve considerably more risk than larger-cap stocks. Past performance is no guarantee of future results. Historical market trends are not necessarily indicative of future market movements. The (Center for Research in Security Prices) CRSP 6-10 is an unmanaged composite representing the bottom five deciles of stocks listed on the New York Stock Exchange, the American Stock Exchange and the Nasdaq National Market, based on market capitalization. The S&P 500 is an unmanaged index of domestic large-cap stocks. The Russell 2000, Russell 2000 Value and Russell 2000 Growth are unmanaged indices of domestic small-cap stocks.

## SMALL-CAP MARKET CYCLE PERFORMANCE

Since the Russell 2000's inception on 12/31/78, value outperformed growth in five of the six full small-cap market cycles (defined as a move of 15% from a previous peak or trough). The last small-cap market cycle (4/21/98 - 3/9/00) was the exception. **The current cycle represents what we believe is a return to more historically typical performance in that value provided a significant advantage during the downturn (3/9/00 - 10/9/02) and through December 31, 2003.**

|  | PRIOR<br>PEAK-TO-PEAK |                                    | TROUGH-TO-CURRENT  |                                      | PRIOR<br>PEAK-TO-CURRENT |  |
|--|-----------------------|------------------------------------|--------------------|--------------------------------------|--------------------------|--|
|  | 4/21/98 □<br>3/9/00   | PEAK-TO-TROUGH<br>3/9/00 □ 10/9/02 | 10/9/02 □ 12/31/03 | PEAK-TO-CURRENT<br>3/9/00 □ 12/31/03 | 4/21/98 □<br>12/31/03    |  |
| Russell 2000                           | 26.3%                 | -44.1%                             | 73.1%              | -3.3%                                | 22.2%                    |  |
| Russell 2000 Value                     | -12.7                 | 2.0                                | 69.8               | 73.1                                 | 51.2                     |  |
| Russell 2000 Growth                    | 64.8                  | -68.4                              | 76.7               | -44.2                                | -8.0                     |  |
| <b>NAV CUMULATIVE<br/>TOTAL RETURN</b> |                       |                                    |                    |                                      |                          |  |
| Royce Value Trust                      | 10.0                  | -12.2                              | 67.5               | 47.1                                 | 61.8                     |  |
| Royce Micro-Cap Trust                  | 10.6                  | -13.6                              | 85.4               | 59.3                                 | 76.3                     |  |
| Royce Focus Trust                      | -10.7                 | -4.9                               | 85.5               | 76.4                                 | 57.6                     |  |

**PEAK-TO-TROUGH:** Not only did value outperform growth (as measured by the Russell 2000 style indices), it also provided positive performance during the downdraft. All three Royce Funds outperformed the Russell 2000 in this period.

**TROUGH-TO-CURRENT:** Through December 31, 2003, growth led value during the rally from the October low. All Royce Funds posted total returns of more than 65% during this period, with Royce Micro-Cap Trust and Royce Focus Trust outperforming the Russell 2000.

**PEAK-TO-CURRENT:** From March 9, 2000 through December 31, 2003, value maintained a sizeable lead over growth. Again, all three Royce Funds held performance advantages over the Russell 2000 (-3.3%) and all have provided positive performance. When current cycle returns are combined with those of the prior full market cycle, a period which includes both the pre-bubble rally and the ensuing bear market, value's positive results compare favorably against growth's negative results. During this period, all three Royce Funds outperformed the Russell 2000 Value's 51.2% return.

**HISTORY SINCE INCEPTION**

The following table details the share accumulations by an initial investor in the Funds who reinvested all distributions (including fractional shares) and participated fully in primary subscriptions for each of the rights offerings. Full participation in distribution reinvestments and rights offerings can maximize the returns available to a long-term investor. This table should be read in conjunction with the Performance and Portfolio Reviews of the Funds.

| <u>HISTORY</u>               | <u>AMOUNT INVESTED</u>           | <u>PURCHASE PRICE*</u> | <u>SHARES</u> | <u>NAV VALUE**</u> | <u>MARKET VALUE**</u> |                   |
|------------------------------|----------------------------------|------------------------|---------------|--------------------|-----------------------|-------------------|
| <b>Royce Value Trust</b>     |                                  |                        |               |                    |                       |                   |
| 11/26/86                     | Initial Purchase                 | \$ 10,000              | \$ 10.000     | 1,000              | \$ 9,280              | \$ 10,000         |
| 10/15/87                     | Distribution \$0.30              |                        | 7.000         | 42                 |                       |                   |
| 12/31/87                     | Distribution \$0.22              |                        | 7.125         | 32                 | 8,578                 | 7,250             |
| 12/27/88                     | Distribution \$0.51              |                        | 8.625         | 63                 | 10,529                | 9,238             |
| 9/22/89                      | Rights Offering                  | 405                    | 9.000         | 45                 |                       |                   |
| 12/29/89                     | Distribution \$0.52              |                        | 9.125         | 67                 | 12,942                | 11,866            |
| 9/24/90                      | Rights Offering                  | 457                    | 7.375         | 62                 |                       |                   |
| 12/31/90                     | Distribution \$0.32              |                        | 8.000         | 52                 | 11,713                | 11,074            |
| 9/23/91                      | Rights Offering                  | 638                    | 9.375         | 68                 |                       |                   |
| 12/31/91                     | Distribution \$0.61              |                        | 10.625        | 82                 | 17,919                | 15,697            |
| 9/25/92                      | Rights Offering                  | 825                    | 11.000        | 75                 |                       |                   |
| 12/31/92                     | Distribution \$0.90              |                        | 12.500        | 114                | 21,999                | 20,874            |
| 9/27/93                      | Rights Offering                  | 1,469                  | 13.000        | 113                |                       |                   |
| 12/31/93                     | Distribution \$1.15              |                        | 13.000        | 160                | 26,603                | 25,428            |
| 10/28/94                     | Rights Offering                  | 1,103                  | 11.250        | 98                 |                       |                   |
| 12/19/94                     | Distribution \$1.05              |                        | 11.375        | 191                | 27,939                | 24,905            |
| 11/3/95                      | Rights Offering                  | 1,425                  | 12.500        | 114                |                       |                   |
| 12/7/95                      | Distribution \$1.29              |                        | 12.125        | 253                | 35,676                | 31,243            |
| 12/6/96                      | Distribution \$1.15              |                        | 12.250        | 247                | 41,213                | 36,335            |
| 1997                         | Annual distribution total \$1.21 |                        | 15.374        | 230                | 52,556                | 46,814            |
| 1998                         | Annual distribution total \$1.54 |                        | 14.311        | 347                | 54,313                | 47,506            |
| 1999                         | Annual distribution total \$1.37 |                        | 12.616        | 391                | 60,653                | 50,239            |
| 2000                         | Annual distribution total \$1.48 |                        | 13.972        | 424                | 70,711                | 61,648            |
| 2001                         | Annual distribution total \$1.49 |                        | 15.072        | 437                | 81,478                | 73,994            |
| 2002                         | Annual distribution total \$1.51 |                        | 14.903        | 494                | 68,770                | 68,927            |
| 1/28/03                      | Rights Offering                  | 5,600                  | 10.770        | 520                |                       |                   |
| 2003                         | Annual distribution total \$1.30 |                        | 14.582        | 516                |                       |                   |
| <b>12/31/03</b>              |                                  | <b>\$ 21,922</b>       |               | <b>6,237</b>       | <b>\$ 106,216</b>     | <b>\$ 107,339</b> |
| <b>Royce Micro-Cap Trust</b> |                                  |                        |               |                    |                       |                   |
| 12/14/93                     | Initial Purchase                 | \$ 7,500               | \$ 7.500      | 1,000              | \$ 7,250              | \$ 7,500          |

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|   |                      |                 |          |              |                  |                  |
|---|----------------------|-----------------|----------|--------------|------------------|------------------|
| 10/28/94  | Rights Offering      | 1,400           | 7.000    | 200          |                  |                  |
| 12/19/94  | Distribution \$0.05  |                 | 6.750    | 9            | 9,163            | 8,462            |
| 12/7/95   | Distribution \$0.36  |                 | 7.500    | 58           | 11,264           | 10,136           |
| 12/6/96   | Distribution \$0.80  |                 | 7.625    | 133          | 13,132           | 11,550           |
| 12/5/97   | Distribution \$1.00  |                 | 10.000   | 140          | 16,694           | 15,593           |
| 12/7/98   | Distribution \$0.29  |                 | 8.625    | 52           | 16,016           | 14,129           |
| 12/6/99   | Distribution \$0.27  |                 | 8.781    | 49           | 18,051           | 14,769           |
| 12/6/00   | Distribution \$1.72  |                 | 8.469    | 333          | 20,016           | 17,026           |
| 12/6/01   | Distribution \$0.57  |                 | 9.880    | 114          | 24,701           | 21,924           |
|   | Annual distribution  |                 |          |              |                  |                  |
| 2002  | total \$0.80         |                 | 9.518    | 180          | 21,297           | 19,142           |
|   | Annual distribution  |                 |          |              |                  |                  |
| 2003  | total \$0.92         |                 | 10.004   | 217          |                  |                  |
| <b>12/31/03</b>   |                      | <b>\$ 8,900</b> |          | <b>2,485</b> | <b>\$ 33,125</b> | <b>\$ 31,311</b> |
| <b>Royce Focus Trust</b>  |                      |                 |          |              |                  |                  |
| 10/31/96  | Initial Purchase     | \$ 4,375        | \$ 4.375 | 1,000        | \$ 5,280         | \$ 4,375         |
| 12/31/96  |                      |                 |          |              | 5,520            | 4,594            |
| 12/5/97   | Distribution \$0.53  |                 | 5.250    | 101          | 6,650            | 5,574            |
| 12/31/98  |                      |                 |          |              | 6,199            | 5,367            |
| 12/6/99   | Distribution \$0.145 |                 | 4.750    | 34           | 6,742            | 5,356            |
| 12/6/00   | Distribution \$0.34  |                 | 5.563    | 69           | 8,151            | 6,848            |
| 12/6/01   | Distribution \$0.14  |                 | 6.010    | 28           | 8,969            | 8,193            |
| 12/6/02   | Distribution \$0.09  |                 | 5.640    | 19           | 7,844            | 6,956            |
| 12/8/03   | Distribution \$0.62  |                 | 8.250    | 94           |                  |                  |
| <b>12/31/03</b>   |                      | <b>\$ 4,375</b> |          | <b>1,345</b> | <b>\$ 12,105</b> | <b>\$ 11,406</b> |
| *Beginning with 1997 (RVT) and 2002 (RMT) distribution, the purchase price on distributions is an average of the Fund's full year distribution reinvestment cost. |                      |                 |          |              |                  |                  |
| **Other than for initial purchase, values are stated as of December 31 of the year indicated, after reinvestment of distributions.                                |                      |                 |          |              |                  |                  |
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## ROYCE VALUE TRUST

| <b>AVERAGE ANNUAL TOTAL RETURNS</b> |        |
|-------------------------------------|--------|
| Through 12/31/03                    |        |
| Fourth Quarter 2003*                | 13.38% |
| July-December 2003*                 | 23.75  |
| 1-Year                              | 40.80  |
| 3-Year                              | 11.04  |
| 5-Year                              | 12.25  |
| 10-Year                             | 12.64  |

## MANAGER'S DISCUSSION

Royce Value Trust's (RVT) diversified portfolio of small- and micro-cap stocks enjoyed a strong absolute return in 2003 on both a net asset value (NAV) and market price basis. **The Fund was up 40.8% on an NAV basis and 42.0% on a market price basis. These performances trailed the calendar-year return of the small-cap oriented Russell 2000, which was up 47.3%, but were ahead of the small-cap S&P 600, which was up 38.8% in 2003.** The fourth quarter saw further expansion of the market's recovery, which has thus far been primarily driven by micro-caps and Technology stocks. RVT was up 13.4% on an NAV basis and 11.9% on a market price basis in the fourth quarter. Both returns were shy of the Fund's benchmarks – the Russell 2000 was up 14.5% and the S&P 600 was up 14.8% in

|                            |       |
|----------------------------|-------|
| 15-Year                    | 13.27 |
| Since Inception (11/26/86) | 12.37 |

\*Not annualized.

**RISK/RETURN COMPARISON**

3-Year Period ended 12/31/03

|                                | Average Annual Total Return | Standard Deviation | Return Efficiency* |
|--------------------------------|-----------------------------|--------------------|--------------------|
| <b>Royce Value Trust (NAV)</b> | <b>11.0%</b>                | <b>24.7</b>        | <b>0.45</b>        |
| S&P 600                        | 8.1%                        | 21.7               | 0.37               |
| Russell 2000                   | 6.3%                        | 23.6               | 0.27               |

\*Return Efficiency is the average annual total return divided by the annualized standard deviation over a designated time period.

**Over the last three years, Royce Value Trust has outperformed the S&P 600 and the Russell 2000 on both an absolute and a risk-adjusted basis.**

the fourth quarter. However, over longer-term and market cycle periods, RVT held the advantage over both indices. For the period ended 12/31/03, RVT was up 47.1% on an NAV basis from the small-cap market peak on 3/9/00, versus a gain of 24.9% for the S&P 600 and a loss of 3.3% for the Russell 2000. The Fund also outperformed both benchmarks on both an NAV and market price basis for the three-, five-, 10-, 15-year and since inception (11/26/86) periods. **RVT's average annual NAV total return since inception was 12.4%.**

Although positive performances could be found in all of the Fund's sectors and industry groups, the gains of the Fund's Technology holdings as a group made those of other sectors look rather modest. In many cases (including some of RVT's holdings), Tech stock prices seemed to rise more in anticipation of increases in capital spending or of a business's profitability than for actual increases in earnings or other, more tangible reasons. The considerable price appreciation of Tech stocks led us to reduce or sell off many positions in the sector. During the depths of the bear market in 2002, we substantially increased our position in business and technology consultant Sapient Corporation. Its revenues crept upward last fall, but its explosive gain prompted us to reduce our position from September through November. We initially liked the low price, balance sheet and niche business of specialty circuit board manufacturer TTM Technologies. Increased revenues and earnings, as well as Wall Street attention, led its price to levels beyond our expectations. We began to reduce our position in July. We think that Transaction Systems Architects has a terrific core business, which involves e-commerce and e-payment software. Its price soared in 2003, so we took some gains, but still held a good-sized stake at the end of the year.

Elsewhere in the portfolio, solid gains came from a few old favorites. Number-one holding Simpson Manufacturing, which makes various connectors used in the construction industry, first attracted our attention in 1994. We have been happy to hold the stock for nearly a decade, and were very pleased to see investors make the connection between what we see as the firm's sterling financial quality and its stock price in 2003. We first bought shares of grain and distillery product maker MGP Ingredients in 1988 and have owned shares almost continuously since. Its strong balance sheet and solid earnings seemed to attract more investors in 2003. MacDermid produces chemicals for metal and plastic finishing. We first bought shares in 1991 and were pleased to see what we regard as a well-run firm in a solid niche enjoy a strong 2003. In all three cases, we were content to hold large positions at the end of the year.

**CALENDAR YEAR NAV TOTAL RETURNS**

| Year | RVT   | Year | RVT   |
|------|-------|------|-------|
| 2003 | 40.8% | 1995 | 21.1% |
| 2002 | -15.6 | 1994 | 0.1   |

|      |      |      |       |
|------|------|------|-------|
| 2001 | 15.2 | 1993 | 17.3  |
| 2000 | 16.6 | 1992 | 19.3  |
| 1999 | 11.7 | 1991 | 38.4  |
| 1998 | 3.3  | 1990 | -13.8 |
| 1997 | 27.5 | 1989 | 18.3  |
| 1996 | 15.5 | 1988 | 22.7  |

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## PERFORMANCE AND PORTFOLIO REVIEW

### GOOD IDEAS THAT WORKED

2003 Net Realized and Unrealized Gain

|                                      |             |
|--------------------------------------|-------------|
| Urban Outfitters                     | \$4,114,094 |
| E*TRADE Financial                    | 3,950,478   |
| Sapient Corporation                  | 3,800,268   |
| Transaction Systems Architects Cl. A | 3,727,877   |
| Velcro Industries                    | 3,601,730   |

### Urban Outfitters □

This merchandiser and specialty retail store operator enjoyed record sales, strong earnings and a two-for-one stock split in 2003, developments that seemed to keep investors buying its stock. We trimmed our position in October.

**E\*TRADE Financial** □ Our decision to trim our position in this financial services firm was based solely on the impressive rise of its stock price. We have retained our high view of its management and its ability to make the transition from an internet-based discount brokerage to a low-cost leader in financial services.

### GOOD IDEAS AT THE TIME

2003 Net Realized and Unrealized Loss

|                           |             |
|---------------------------|-------------|
| PMA Capital Cl. A         | \$2,185,376 |
| Allegiance Telecom        | 1,538,391   |
| PRG-Schultz International | 1,079,698   |

### PMA Capital Cl. A □

Our once-high confidence in this provider of property and casualty reinsurance withered in the face of what we felt was management's

### PORTFOLIO DIAGNOSTICS

|                              |               |
|------------------------------|---------------|
| Median Market Capitalization | \$915 million |
| Weighted Average P/E Ratio   | 22.7x*        |
| Weighted Average P/B Ratio   | 2.0x          |
| Weighted Average Yield       | 0.7%          |
| Fund Net Assets              | \$851 million |
| Turnover Rate                | 23%           |
| Net Leverage <sup>□</sup>    | 4%            |

Symbol - Market Price RVT  
- NAV XRVTX

\*Excludes 21% of the portfolio holdings with zero or negative earnings as of 12/31/03.

□ Net leverage is the percentage, in excess of 100%, of the total value of equity type investments, divided by net assets applicable to Common Stockholders.

### TOP 10 POSITIONS

% of Net Assets Applicable to Common Stockholders

|                       |      |
|-----------------------|------|
| Simpson Manufacturing | 1.1% |
|                       | 1.0  |

|                    |           |
|--------------------|-----------|
| Payless ShoeSource | 1,037,569 |
|--------------------|-----------|

|                                   |         |
|-----------------------------------|---------|
| Hilb, Rogal & Hamilton<br>Company | 843,191 |
|-----------------------------------|---------|

inability to effectively steer the company through increasingly difficult times for its core business.

**Allegiance Telecom** □ Our generally disappointing experience with this telecommunications service provider ended, sadly but perhaps mercifully, when we sold the last of our shares in December following an announcement of bankruptcy in May.

|                              |  |
|------------------------------|--|
| Ritchie Bros.<br>Auctioneers |  |
|------------------------------|--|

|           |     |
|-----------|-----|
| MacDermid | 0.9 |
|-----------|-----|

|                                 |     |
|---------------------------------|-----|
| Erie Indemnity<br>Company Cl. A | 0.8 |
|---------------------------------|-----|

|                             |     |
|-----------------------------|-----|
| Sotheby's Holdings Cl.<br>A | 0.8 |
|-----------------------------|-----|

|                     |     |
|---------------------|-----|
| Arrow International | 0.8 |
|---------------------|-----|

|                                    |     |
|------------------------------------|-----|
| White Mountains<br>Insurance Group | 0.8 |
|------------------------------------|-----|

|            |     |
|------------|-----|
| Technitrol | 0.8 |
|------------|-----|

|                 |     |
|-----------------|-----|
| MGP Ingredients | 0.8 |
|-----------------|-----|

|       |     |
|-------|-----|
| Keane | 0.8 |
|-------|-----|

#### PORTFOLIO SECTOR BREAKDOWN

% of Net Assets Applicable to  
Common Stockholders

|            |       |
|------------|-------|
| Technology | 23.3% |
|------------|-------|

|                     |      |
|---------------------|------|
| Industrial Products | 16.1 |
|---------------------|------|

|                     |      |
|---------------------|------|
| Industrial Services | 13.7 |
|---------------------|------|

|                          |      |
|--------------------------|------|
| Financial Intermediaries | 10.4 |
|--------------------------|------|

|        |      |
|--------|------|
| Health | 10.0 |
|--------|------|

|                   |     |
|-------------------|-----|
| Natural Resources | 7.8 |
|-------------------|-----|

|                   |     |
|-------------------|-----|
| Consumer Products | 7.3 |
|-------------------|-----|

|                   |     |
|-------------------|-----|
| Consumer Services | 5.6 |
|-------------------|-----|

|                    |     |
|--------------------|-----|
| Financial Services | 5.6 |
|--------------------|-----|

|           |     |
|-----------|-----|
| Utilities | 0.1 |
|-----------|-----|

|               |     |
|---------------|-----|
| Miscellaneous | 3.6 |
|---------------|-----|

|                            |     |
|----------------------------|-----|
| Bonds & Preferred<br>Stock | 0.3 |
|----------------------------|-----|

|  |      |
|--|------|
| Treasuries, Cash & Cash<br>Equivalents | 22.1 |
|--|------|

#### CAPITAL STRUCTURE

#### The regular reinvestment of distributions makes a difference!

<sup>1</sup> Reflects the cumulative performance of an investment made by a stockholder who purchased one share at inception (\$10.00 IPO) and then reinvested all annual distributions as indicated, and fully participated in primary subscriptions of the Fund's rights offerings.

<sup>2</sup> Reflects the actual market price of one share as it has traded on the NYSE.

Publicly Traded Securities  
Outstanding  
at 12/31/03 at NAV or Liquidation  
Value

50.0 million shares of Common Stock \$851 million

5.90% Cumulative Preferred Stock \$220 million

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## ROYCE MICRO-CAP TRUST

### NAV AVERAGE ANNUAL TOTAL RETURNS

Through 12/31/03

Fourth Quarter 2003\* 15.58%

### MANAGER'S DISCUSSION

Micro-cap stocks were among the market leaders in the rally that began in October 2002, a fact reflected in the calendar-year performance of Royce Micro-Cap Trust (RMT). **In 2003, the Fund was up 55.6% on a net asset value (NAV) basis and 63.6% on a market price basis, in both instances ahead of its small-cap benchmark, the Russell 2000, which was up 47.3% for the same period.** The Fund held on to its performance edge in the fourth quarter, as the rally broadened. RMT was up 15.6% on an NAV basis and 16.7% on a market price basis versus a gain of 14.5% for the Russell 2000. As strong a year as it was, we were even more pleased with the Fund's performance over long-term and market-cycle periods. RMT outpaced the Russell 2000 from both the small-cap market peak on 3/9/00 (+59.3% versus -3.3%) and the small-cap market trough on 10/9/02 (+85.4% versus +73.1%) for the periods ended 12/31/03. The Fund also outperformed its benchmark on both an NAV basis and market price basis for the three-, five- 10-year and since inception (12/15/93) periods ended 12/31/03. **RMT's average annual NAV total return since inception was 14.2%.**

The Fund's holdings in Technology made the largest positive impact on performance in 2003. We were ambivalent about the success of Tech stocks in the current rally. While they quite clearly boosted RMT's performance and seemed to provide an impetus for the rally as a whole, we were concerned that many Tech firms finished the year with sizeable returns but without net profits (though some posted positive earnings late in the year). Investors seemed as enamored with potential as they were with more tangible measures of quality. Our strategy in RMT was to trim or reduce several top gainers in the sector because their prices had risen precipitously and we were unsure if they remained good values at their higher prices. The price of wireless telephone system manufacturer SpectraLink Corporation rose through September, when we sold a bit less than half of our position. We were attracted to its strong balance sheet and niche business. Another

business that we like is information technology (IT) consultants, especially if they have little debt and talented management, which we judged to be the case with DiamondCluster International Corporation. Its price began to take off in April, prompting us to begin reducing our position. We were content to hold a large position in IT consultant Covansys Corporation at year-end. At one point in 2002, we nearly gave up on the company, but the combination of a smart acquisition in May 2002 and cost-cutting measures in 2003 seemed to help its stock price to recover.

The business of iGATE Corporation, a staffing services company with a substantial business in Technology Consulting, was somewhat sluggish in 2003, yet investors seemed happy to invest in its potential ability to turn things around. We held a large position at the end of the year. During the dark days of the bear market in 2002, we built our position in top-ten holding Excel Technology, a firm that develops and manufactures laser systems and electro-optical components for industrial, scientific and medical uses. We were initially intrigued by its interesting business and low debt.

The prospects for recessed- and track-lighting fixture designer Juno Lighting brightened in 2003 as its management paid down debt and made a series of moves that we thought were high-wattage decisions. Improved earnings and the announcement that it would be acquired in December 2003 seemed to help the stock price of BioReliance Corporation, a contract service organization that provides services for biomedical, biotechnology and pharmaceutical companies. We slightly reduced our position in November. We were happy to hold a good-sized stake in contact lens maker Ocular Sciences. The company continued to gain market share both domestically and internationally. We have long considered it a well-run, financially clear-sighted company.

|                            |       |
|----------------------------|-------|
| July-December 2003*        | 30.36 |
| 1-Year                     | 55.55 |
| 3-Year                     | 18.28 |
| 5-Year                     | 15.64 |
| 10-Year                    | 14.27 |
| Since Inception (12/14/93) | 14.22 |

\*Not annualized.

#### RISK/RETURN COMPARISON

3-Year Period ended 12/31/03

|                            | Average<br>Annual<br>Total Return | Standard<br>Deviation | Return<br>Efficiency* |
|----------------------------|-----------------------------------|-----------------------|-----------------------|
| <b>Royce<br/>Micro-Cap</b> | <b>18.3%</b>                      | <b>28.7</b>           | <b>0.64</b>           |

**Trust (NAV)**

|              |      |      |      |
|--------------|------|------|------|
| Russell 2000 | 6.3% | 23.6 | 0.27 |
|--------------|------|------|------|

\*Return Efficiency is the average annual total return divided by the annualized standard deviation over a designated time period.

**Over the last three years, Royce Micro-Cap Trust has outperformed the Russell 2000 on both an absolute and a risk-adjusted basis.**

**CALENDAR YEAR NAV TOTAL RETURNS**

| Year | RMT   |
|------|-------|
| 2003 | 55.6% |
| 2002 | -13.8 |
| 2001 | 23.4  |
| 2000 | 10.9  |
| 1999 | 12.7  |
| 1998 | -4.1  |
| 1997 | 27.1  |
| 1996 | 16.6  |
| 1995 | 22.9  |
| 1994 | 5.0   |

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**PERFORMANCE AND PORTFOLIO REVIEW****GOOD IDEAS THAT WORKED**

2003 Net Realized and Unrealized Gain

|                     |             |
|---------------------|-------------|
| Sapient Corporation | \$3,193,705 |
|---------------------|-------------|

|                     |  |
|---------------------|--|
| Transaction Systems |  |
|---------------------|--|

|                  |           |
|------------------|-----------|
| Architects Cl. A | 2,458,120 |
|------------------|-----------|

**Sapient Corporation** □ We increased our stake in this business and technology consultant during the depths of the bear market in 2002. Its revenues crept upward last fall,

**PORTFOLIO DIAGNOSTICS**

|                              |               |
|------------------------------|---------------|
| Median Market Capitalization | \$264 million |
|------------------------------|---------------|

|                            |        |
|----------------------------|--------|
| Weighted Average P/E Ratio | 19.3x* |
|----------------------------|--------|

|                            |      |
|----------------------------|------|
| Weighted Average P/B Ratio | 1.7x |
|----------------------------|------|

|                        |      |
|------------------------|------|
| Weighted Average Yield | 0.6% |
|------------------------|------|

|                         |           |
|-------------------------|-----------|
| Covansys Corporation    | 1,817,515 |
| SpectraLink Corporation | 1,633,238 |
| iGATE Corporation       | 1,586,557 |

but its explosive gain prompted us to begin reducing our position in June.

**Transaction Systems Architects Cl. A** □ The price of this e-commerce and e-payment software company skyrocketed in the second quarter and hasn't shown signs of slowing down yet. We started to reduce our position in November at substantial gains, though we still thought very highly of its core business.

#### GOOD IDEAS AT THE TIME 2003 Net Realized and Unrealized Loss

|                           |           |
|---------------------------|-----------|
| PRG-Schultz International | \$808,519 |
| The Boyds Collection      | 545,462   |
| Allegiance Telecom        | 492,474   |
| On Assignment             | 418,440   |
| Daisytek International    | 415,052   |

**PRG-Schultz International** □ We were attracted to the dominant market share of this leader in the niche business of recovery audits for mid- to large-sized businesses. Its sluggish stock price performance led us to substantially build our position in 2003.

**The Boyds Collection** □ Sales and earnings for this designer and importer of handcrafted collectibles and other specialty giftware products continued to decline in 2003. At year end, we were still re-evaluating our position.

|                 |               |
|-----------------|---------------|
| Fund Net Assets | \$253 million |
|-----------------|---------------|

|               |     |
|---------------|-----|
| Turnover Rate | 26% |
|---------------|-----|

|                           |    |
|---------------------------|----|
| Net Leverage <sup>□</sup> | 3% |
|---------------------------|----|

|                       |       |
|-----------------------|-------|
| Symbol - Market Price | RMT   |
| - NAV                 | XOTCX |

\*Excludes 29% of portfolio holdings with zero or negative earnings as of 12/31/03.

□ Net leverage is the percentage, in excess of 100%, of the total value of equity type investments, divided by net assets applicable to Common Stockholders.

#### TOP 10 POSITIONS

% of Net Assets Applicable to  
Common Stockholders

|                     |      |
|---------------------|------|
| Sapient Corporation | 1.5% |
|---------------------|------|

|              |     |
|--------------|-----|
| Seneca Foods | 1.4 |
|--------------|-----|

|                  |     |
|------------------|-----|
| Excel Technology | 1.3 |
|------------------|-----|

|                                      |     |
|--------------------------------------|-----|
| Transaction Systems Architects Cl. A | 1.3 |
|--------------------------------------|-----|

|                      |     |
|----------------------|-----|
| Covansys Corporation | 1.2 |
|----------------------|-----|

|               |     |
|---------------|-----|
| Juno Lighting | 1.1 |
|---------------|-----|

|                           |     |
|---------------------------|-----|
| Denison International ADR | 1.1 |
|---------------------------|-----|

|               |     |
|---------------|-----|
| Delta Apparel | 1.0 |
|---------------|-----|

|                        |     |
|------------------------|-----|
| Richardson Electronics | 1.0 |
|------------------------|-----|

|              |     |
|--------------|-----|
| 800 JR Cigar | 1.0 |
|--------------|-----|

#### PORTFOLIO SECTOR BREAKDOWN % of Net Assets Applicable to Common Stockholders

|            |       |
|------------|-------|
| Technology | 26.7% |
|------------|-------|

|                     |      |
|---------------------|------|
| Industrial Products | 14.8 |
|---------------------|------|

|                     |      |
|---------------------|------|
| Industrial Services | 14.1 |
|---------------------|------|

**The regular reinvestment of distributions makes a difference!**

<sup>1</sup> Reflects the cumulative performance of an investment made by a stockholder who purchased one share at inception (\$7.50 IPO) and then reinvested distributions as indicated, and fully participated in primary subscription of the 1994 rights offerings.

<sup>2</sup> Reflects the actual market price of one share as it has traded on the Nasdaq and, beginning 12/1/03, on the NYSE.

|                                     |      |
|-------------------------------------|------|
| Health                              | 11.1 |
| Natural Resources                   | 9.1  |
| Consumer Products                   | 9.0  |
| Financial Intermediaries            | 6.1  |
| Consumer Services                   | 5.1  |
| Financial Services                  | 1.0  |
| Diversified Investment Companies    | 0.4  |
| Miscellaneous                       | 5.0  |
| Preferred Stocks                    | 0.5  |
| Treasuries, Cash & Cash Equivalents | 20.8 |

**CAPITAL STRUCTURE**

Publicly Traded Securities Outstanding at 12/31/03 at NAV or Liquidation Value

|                                     |               |
|-------------------------------------|---------------|
| 19.0 million shares of Common Stock | \$253 million |
| 6.00% Cumulative Preferred Stock    | \$60 million  |

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**ROYCE FOCUS TRUST****NAV AVERAGE ANNUAL TOTAL RETURNS**

Through 12/31/03

|                      |        |
|----------------------|--------|
| Fourth Quarter 2003* | 16.44% |
| July-December 2003*  | 30.06  |
| 1-Year               | 54.33  |
| 3-Year               | 14.11  |
| 5-Year               | 14.34  |

**MANAGER'S DISCUSSION**

With a little extra help from Technology and micro-cap stocks, Royce Focus Trust enjoyed a strong year by almost any measure in 2003. **On both a net asset value (NAV) and market price basis, the Fund posted its highest calendar-year return since Royce assumed its management on 11/1/96. FUND was up 54.3% on an NAV basis and 64.0% on a market price basis, both returns ahead of the Fund's small-cap benchmark, the Russell 2000, which was up 47.3% in 2003.** The fourth quarter saw further expansion of the rally beyond the more speculative issues that have been leading since the recovery began in October 2002. FUND stayed ahead of its benchmark

Since Inception (11/1/96)<sup>□</sup> 12.28

\*Not annualized.

□Royce & Associates assumed investment management responsibility for the Fund on 11/1/96.

### RISK/RETURN COMPARISON

3-Year Period ended 12/31/03

|                                | Average Annual Total Return | Standard Deviation | Return Efficiency* |
|--------------------------------|-----------------------------|--------------------|--------------------|
| <b>Royce Focus Trust (NAV)</b> | <b>14.1%</b>                | <b>25.9</b>        | <b>0.54</b>        |
| Russell 2000                   | 6.3%                        | 23.6               | 0.27               |

\*Return Efficiency is the average annual total return divided by the annualized standard deviation over a designated time period.

**Over the last three years, Royce Focus Trust has outperformed the Russell 2000 on both an absolute and a risk-adjusted basis.**

in the fourth quarter, posting an NAV return of 16.4% and a market price return of 19.7%, versus a 14.5% return for the Russell 2000. We were even more pleased with the Fund's results over market cycle and long-term performance periods. For the period ended 12/31/03, FUND was up 76.4% from the small-cap market peak on 3/9/00, versus a decline of 3.3% for the Russell 2000. The Fund also outperformed the benchmark for the one-, three-, five-year and since inception periods ended 12/31/03. **FUND's average annual NAV total return since inception was 12.3%.**

Portfolio holdings in the Technology sector made the greatest positive impact on the Fund's performance. However, Tech did not dominate portfolio performance to the same degree that it did in the market as a whole (or in other Royce-managed portfolios), and we were pleased to see strong gains from companies in several sectors and industry groups. Of the Fund's twenty top-performing stocks in 2003, only five were Tech stocks. We were attracted to two of these companies based on our belief that their respective well-established and profitable business relationships with the U.S. military could keep them growing profitably. Each suffered from a depressed stock price in 2002, in part because the significant retrenchment in technology spending occurred not long after they first made forays into more commercial ventures. In the fall of 2002, we built our position in REMEC, a manufacturer of various components for wireless communications, while we first bought shares of ViaSat, which provides broadband digital satellite communications and other wireless networking and signal processing equipment and services early in 2003. The price of each stock rose during the rally. We took gains in REMEC in 2003, though at year-end we thought that each remained a well-run company. Another firm in which we reduced our stake due to its fast-rising stock price was e-commerce and e-payment software company, Transaction Systems Architects. In mid-2002, new management came on board and shaped up the firm's balance sheet, a move that focused our attention on what we already regarded as a potentially high-growth business. Although by the end of the year its price remained in orbit, we began to reduce our position in September at substantial gains.

We first began to buy Endo Pharmaceuticals Holdings in FUND late in 2002. We liked its balance sheet, its high returns on capital, and the firm's roster of products, which included both brand name and generic drugs. None of that has changed, except that the company's cash flows were more robust in 2003 than we had expected. Although its stock price received a shot in the arm, we were content to hold a large position at the end of the year, thinking that the company still had room to grow. Our decision to trim our position in number-three holding E\*TRADE Financial was based solely on the impressive rise of its stock price. We have retained our high view of its management and its ability to make the transition from an internet-based discount brokerage to a low-cost leader in financial services.

| CALENDAR YEAR NAV TOTAL RETURNS |        |
|---------------------------------|--------|
| Year                            | FUND   |
| 2003                            | 54.3%  |
| 2002                            | -12.5% |
| 2001                            | 10.0   |
| 2000                            | 20.9   |
| 1999                            | 8.7    |
| 1998                            | -6.8   |
| 1997                            | 20.5   |

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## PERFORMANCE AND PORTFOLIO REVIEW

### GOOD IDEAS THAT WORKED

#### 2003 Net Realized and Unrealized Gain

|                                      |             |
|--------------------------------------|-------------|
| TSX Group                            | \$2,183,572 |
| Winnebago Industries                 | 2,007,800   |
| Endo Pharmaceuticals Holdings        | 1,796,980   |
| Transaction Systems Architects Cl. A | 1,750,937   |
| Carlisle Holdings                    | 1,353,000   |

**TSX Group** □ A newer position that we first bought shortly after its initial public offering, this company owns and operates the Toronto Stock Exchange, North America's third largest. It remains under-followed by domestic equity analysts. We built our position throughout

2003, attracted to the company's increased earnings and technological innovations. We also received a favorable currency exchange benefit due to the weakening American dollar.

**Winnebago Industries** □ Although we initiated our position in the Fund's portfolio in March 2003, we have long liked the dominant market share and strong profit margins of this leading recreation vehicle manufacturer. The fact that the company has been using much of its free cash flow to buy back stock only adds to the list of attractive qualities.

### GOOD IDEAS AT THE TIME

### PORTFOLIO DIAGNOSTICS

|                              |                 |
|------------------------------|-----------------|
| Median Market Capitalization | \$1,121 million |
| Weighted Average P/E Ratio   | 22.8x*          |
| Weighted Average P/B Ratio   | 2.4x            |
| Weighted Average Yield       | 0.5%            |
| Fund Net Assets              | \$87 million    |
| Turnover Rate                | 49%             |
| Net Leverage <sup>□</sup>    | 6%              |
| Symbol - Market Price - NAV  | FUND<br>XFUNX   |

\* Excludes 18% of portfolio holdings with zero or negative earnings as of 12/31/03.

□ Net leverage is the percentage, in excess of 100%, of the total value of investments (excluding short-term), divided by net assets applicable to Common Stockholders.

**2003 Net Realized and Unrealized Loss**

|                       |           |
|-----------------------|-----------|
| Direct Corporation    | \$437,744 |
| Monaco Coach          | 232,987   |
| Natuzzi ADR           | 198,018   |
| Somera Communications | 157,300   |
| On Assignment         | 118,500   |

**D u r e c t Corporation** □ Our once healthy confidence in this pharmaceuticals firm quickly turned ill last summer when it took on additional debt (and diluted the value of its stock) in the form of a large private placement of convertible debt securities. We sold our shares in August.

**Monaco Coach** □ Thinking that its balance sheet was not as well-engineered as its more promising competitors, we sold our shares in January and February 2003, essentially upgrading (in our estimation) to Winnebago Industries.

**TOP 10 POSITIONS**

% of Net Assets Applicable to Common Stockholders

|                                  |      |
|----------------------------------|------|
| New Zealand Government 6.5% Bond | 7.7% |
| TSX Group                        | 4.6  |
| E*TRADE Financial                | 4.3  |
| Simpson Manufacturing            | 4.1  |
| Nu Skin Enterprises Cl. A        | 3.9  |
| Hecla Mining Company             | 3.3  |
| Endo Pharmaceuticals Holdings    | 3.3  |
| Goldcorp                         | 3.3  |
| Winnebago Industries             | 3.2  |
| Alleghany Corporation            | 3.1  |

**PORTFOLIO SECTOR BREAKDOWN**

% of Net Assets Applicable to Common Stockholders

|                                     |       |
|-------------------------------------|-------|
| Natural Resources                   | 19.3% |
| Financial Intermediaries            | 14.2  |
| Health                              | 12.2  |
| Technology                          | 11.5  |
| Industrial Products                 | 10.6  |
| Consumer Products                   | 9.6   |
| Industrial Services                 | 7.4   |
| Consumer Services                   | 6.3   |
| Financial Services                  | 4.1   |
| Bonds                               | 11.2  |
| Treasuries, Cash & Cash Equivalents | 22.3  |

<sup>1</sup> Royce & Associates assumed investment management responsibility for the Fund on 11/1/96.

<sup>2</sup> Reflects the cumulative performance experience of a continuous common stockholder who reinvested all distributions.

<sup>3</sup> Reflects the actual market price of one share as it has traded on the Nasdaq.

**CAPITAL STRUCTURE**Publicly Traded Securities Outstanding  
at 12/31/03 at NAV or Liquidation Value

|                                       |              |
|---------------------------------------|--------------|
| 9.7 million shares<br>of Common Stock | \$87 million |
|---------------------------------------|--------------|

|                                     |              |
|-------------------------------------|--------------|
| 6.00% Cumulative<br>Preferred Stock | \$25 million |
|-------------------------------------|--------------|

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**DISTRIBUTION REINVESTMENT AND CASH PURCHASE OPTIONS FOR COMMON STOCKHOLDERS****WHY SHOULD I REINVEST MY DISTRIBUTIONS?**

By reinvesting distributions, a stockholder can maintain an undiluted investment in the Fund. The regular reinvestment of distributions has a significant impact on stockholder returns. In contrast, the stockholder who takes distributions in cash is penalized when shares are issued below net asset value to other stockholders.

**HOW DOES THE REINVESTMENT OF DISTRIBUTIONS FROM THE ROYCE CLOSED-END FUNDS WORK?**

The Funds automatically issue shares in payment of distributions unless you indicate otherwise. The shares are generally issued at the lower of the market price or net asset value on the valuation date.

**HOW DOES THIS APPLY TO REGISTERED STOCKHOLDERS?**

If your shares are registered directly with a Fund, your distributions are automatically reinvested unless you have otherwise instructed the Funds' transfer agent, EquiServe, in writing. A registered stockholder also has the option to receive the distribution in the form of a stock certificate or in cash if EquiServe is properly notified.

**WHAT IF MY SHARES ARE HELD BY A BROKERAGE FIRM OR A BANK?**

If your shares are held by a brokerage firm, bank, or other intermediary as the stockholder of record, you should contact your brokerage firm or bank to be certain that it is automatically reinvesting distributions on your behalf. If they are unable to reinvest distributions on your behalf, you should have your shares registered in your name in order to participate.

**WHAT OTHER FEATURES ARE AVAILABLE FOR REGISTERED STOCKHOLDERS?**

The Distribution Reinvestment and Cash Purchase Plans also allow registered stockholders to make optional cash purchases of shares of a Fund's common stock directly through EquiServe on a monthly basis, and to deposit certificates representing your Fund shares with EquiServe for safekeeping. The Funds' investment adviser is absorbing all commissions on optional cash purchases under the Plans through December 31, 2004.

**HOW DO THE PLANS WORK FOR REGISTERED STOCKHOLDERS?**

EquiServe maintains the accounts for registered stockholders in the Plans and sends written confirmation of all transactions in the account. Shares in the account of each participant will be held by EquiServe in non-certificated form in the name of the participant, and each participant will be able to vote those shares at a stockholder meeting or by proxy. A participant may also send other stock certificates held by them to EquiServe to be held in non-certificated form. There is no service fee charged to participants for reinvesting distributions. If a participant elects to sell shares from a Plan account, EquiServe will deduct a \$2.50 fee plus brokerage commissions from the sale transaction. If a nominee is the registered owner of your shares, the nominee will maintain the accounts on your behalf.

**HOW CAN I GET MORE INFORMATION ON THE PLANS?**

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You can call an Investor Services Representative at (800) 221-4268 or you can request a copy of the Plan for your Fund from EquiServe. All correspondence (including notifications) should be directed to: [Name of Fund] Distribution Reinvestment and Cash Purchase Plan, c/o EquiServe, PO Box 43011, Providence, RI 02940-3011, telephone (800) 426-5523.

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### DIRECTORS AND OFFICERS

All Directors and Officers may be reached c/o The Royce Funds, 1414 Avenue of the Americas, New York, NY 10019

**NAME AND POSITION:** Charles M. Royce (64), Director\* and President

**Term Expires:** 2003      **Tenure:** Since 1986 (RVT), 1993 (OTCM), 1996 (FUND)

**No. of Funds Overseen:** 19

**Non-Royce Directorships:** Director of Technology Investment Capital Corp.

**Principal Occupation(s) During Past Five Years:** President, Chief Investment Officer and Member of Board of Managers (since October 2001), of Royce & Associates, LLC (Royce), the Fund's investment adviser.

**NAME AND POSITION:** Mark R. Fetting (49), Director\*

**Term Expires:** 2004      **Tenure:** Since 2001

**No. of Funds Overseen:** 19

**Non-Royce Directorships:** Director/Trustee of the registered investment companies constituting the 22 Legg Mason Funds.

**Principal Occupation(s) During Past Five Years:** Executive Vice President of Legg Mason, Inc.; Member of Board of Managers of Royce (since October 2001); Division President and Senior Officer, Prudential Financial Group, Inc. and related companies, including Fund Boards and consulting services to subsidiary companies (from 1991 to 2000). Mr. Fetting's prior business experience includes having served as Partner, Greenwich Associates and Vice President, T. Rowe Price Group, Inc.

**NAME AND POSITION:** Donald R. Dwight (72), Director

**Term Expires:** 2005      **Tenure:** Since 1998

**No. of Funds Overseen:** 19

**Non-Royce Directorships:** None

**Principal Occupation(s) During Past Five Years:** President of Dwight Partners, Inc., corporate communications consultant; Chairman (from 1982 to March 1998) and Chairman Emeritus (since March 1998) of Newspapers of New England, Inc. Mr. Dwight's prior experience includes having served as Lieutenant Governor of the Commonwealth of Massachusetts, as President and Publisher of Minneapolis Star and Tribune Company, and as Trustee of the registered investment companies constituting the 94 Eaton Vance Funds.

**NAME AND POSITION:** Richard M. Galkin (65), Director

**NAME AND POSITION:** David L. Meister (64), Director

**Term Expires:** 2003      **Tenure:** Since 1986 (RVT), 1993 (OTCM), 1996 (FUND)

**No. of Funds Overseen:** 19

**Non-Royce Directorships:** None

**Principal Occupation(s) During Past Five Years:** Chairman and Chief Executive Officer of The Tennis Channel (since June 2000). Chief Executive Officer of Seniorlife.com (from December 1999 to May 2000). Mr. Meister's prior business experience includes having served as a consultant to the communications industry, President of Financial News Network, Senior Vice President of HBO, President of Time-Life Films and Head of Broadcasting for Major League Baseball.

**NAME AND POSITION:** G. Peter O'Brien (58), Director

**Term Expires:** 2003      **Tenure:** Since 2001

**No. of Funds Overseen:** 19

**Non-Royce Directorships:** Director/Trustee of registered investment companies constituting the 22 Legg Mason Funds; Director of Renaissance Capital Greenwich Fund and Director of Technology Investment Capital Corp.

**Principal Occupation(s) During Past Five Years:** Trustee of Colgate University; Director of Renaissance Capital Greenwich Funds; Vice President of Hill House, Inc.; Director/Trustee of certain Legg Mason retail funds; Managing Director/Equity Capital Markets Group of Merrill Lynch & Co. (from 1971 to 1999).

**NAME AND POSITION:** John D. Diederich (52), Vice President and Treasurer

**Tenure:** Since 1997

**Principal Occupation(s) During Past Five Years:** Managing Director, Chief Operating Officer and Member of Board of Managers of Royce (since October 2001); Director of Administration of the Funds since April 1993.

**NAME AND POSITION:** Jack E. Fockler, Jr. (45), Vice President

**Tenure:** Since 1995 (RVT), 1995 (OTCM), 1996 (FUND)

**Term Expires:** 2004 **Tenure:** Since 1986 (RVT), 1993 (OTCM), 1996 (FUND)  
**No. of Funds Overseen:** 19 **Non-Royce Directorships:** None  
**Principal Occupation(s) During Past Five Years:** Private investor. Mr. Galkin's prior business experience includes having served as President of Richard M. Galkin Associates, Inc., telecommunications consultants, President of Manhattan Cable Television (a subsidiary of Time, Inc.), President of Haverhill Inc. (another Time, Inc. subsidiary), President of Rhode Island Cable Television and Senior Vice President of Satellite Television Corp. (a subsidiary of Comsat).

**NAME AND POSITION:** Stephen L. Isaacs (64), Director  
**Term Expires:** 2005 (RVT), 2005 (OTCM), 2003 (FUND) **Tenure:** Since 1986 (RVT), 1993 (OTCM), 1996 (FUND)  
**No. of Funds Overseen:** 19 **Non-Royce Directorships:** None  
**Principal Occupation(s) During Past Five Years:** President of The Center for Health and Social Policy (since September 1996); Attorney and President of Health Policy Associates, Inc., consultants. Mr. Isaacs's prior business experience includes having served as Director of Columbia University Development Law and Policy Program and Professor at Columbia University (until August 1996).

**NAME AND POSITION:** William L. Koke (69), Director  
**Term Expires:** 2003 (RVT), 2003 (OTCM), 2005 (FUND) **Tenure:** Since 2001 (RVT), 2001 (OTCM), 1997 (FUND)  
**No. of Funds Overseen:** 19 **Non-Royce Directorships:** None  
**Principal Occupation(s) During Past Five Years:** Financial planner with Shoreline Financial Consultants. Mr. Koke's prior business experience includes having served as Director of Financial Relations of SONAT, Inc., Treasurer of Ward Foods, Inc. and President of CFC, Inc.

\*Interested Director.

**Principal Occupation(s) During Past Five Years:** Managing Director and Vice President of Royce, having been employed by Royce since October 1989.

**NAME AND POSITION:** W. Whitney George (45), Vice President  
**Tenure:** Since 1995 (RVT), 1995 (OTCM), 1996 (FUND)

**Principal Occupation(s) During Past Five Years:** Managing Director and Vice President of Royce, having been employed by Royce since October 1991.

**NAME AND POSITION:** Daniel A. O'Byrne (41), Vice President and Assistant Secretary  
**Tenure:** Since 1994 (RVT), 1994 (OTCM), 1996 (FUND)

**Principal Occupation(s) During Past Five Years:** Vice President of Royce, having been employed by Royce since October 1986.

**NAME AND POSITION:** John E. Denneen (36), Secretary  
**Tenure:** 1996-2001 and Since April 2002

**Principal Occupation(s) During Past Five Years:** General Counsel (Deputy General Counsel prior to 2003), Principal, Chief Compliance Officer and Secretary of Royce and Principal of Credit Suisse First Boston Private Equity (2001-2002).

## NOTES TO PERFORMANCE AND STATISTICAL INFORMATION

### AUTHORIZED SHARE TRANSACTIONS

Each of Royce Value Trust, Royce Micro-Cap Trust and Royce Focus Trust may repurchase up to 300,000 shares of its common stock and up to 10% of the issued and outstanding shares of each series of its preferred stock during the year ending December 31, 2004. Any such repurchases would take place at then prevailing prices in the open market or in other transactions. Common stock repurchases would be effected at a price per share that is less than the share's then current net asset value, and preferred stock repurchases would be effected at a price per share that is less than the share's liquidation value.

Royce Value Trust, Royce Micro-Cap Trust and Royce Focus Trust are also authorized to offer their common stockholders an opportunity to subscribe for additional shares of their common stock through rights offerings at a price per share that may be less than the share's then current net asset value. The timing and

terms of any such offerings are within each Board's discretion.

## NOTES TO PERFORMANCE AND STATISTICAL INFORMATION

All performance information is presented on a total return basis and reflects the reinvestment of distributions. Past performance is no guarantee of future results or volatility. Investment return and principal value will fluctuate, so that shares may be worth more or less than their original cost when sold. The Royce Funds invest primarily in securities of small-cap and/or micro-cap companies that may involve considerably more risk than investments in securities of larger-cap companies. The thoughts expressed in this report concerning recent market movements and future prospects for small company stocks are solely the current opinion of Royce, and, of course, historical market trends are not necessarily indicative of future market movements. Statements regarding the future prospects for particular securities held in the Funds' portfolios and Royce's investment intentions with respect to those securities reflect Royce's opinions as of December 31, 2003 and are subject to change at any time without notice. There can be no assurance that securities mentioned in this report will be included in any Royce-managed portfolio in the future.

Standard deviation is a statistical measure within which a fund's total returns have varied over time. The greater the standard deviation, the greater a fund's volatility.

The Russell 2000, Russell 2000 Value, Russell 2000 Growth, Nasdaq Composite and S&P 500 are unmanaged indices of domestic common stocks. CRSP (Center for Research in Security Pricing) divides the U.S. equity market into 10 deciles. Deciles 1-5 represent the largest domestic equity companies and deciles 6-10 represent the smallest. By way of comparison, the CRSP 1-5 would have similar capitalization parameters to the S&P 500 and the CRSP 6-10 would approximately match those of the Russell 2000. Returns for the market indices used in this report were based on information supplied to Royce by Frank Russell, CRSP and Morningstar. Royce has not independently verified the above described information. The Royce Funds is a service mark of The Royce Funds.

## FORWARD-LOOKING STATEMENTS

This material contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve risks and uncertainties, including, among others, statements as to:

- ◆ the Funds' future operating results,
- ◆ the prospects of the Funds' portfolio companies,
- ◆ the impact of investments that the Funds have made or may make,
- ◆ the dependence of the Funds' future success on the general economy and its impact on the companies and industries in which the Funds invest, and
- ◆ the ability of the Funds' portfolio companies to achieve their objectives.

This report uses words such as "anticipates," "believes," "expects," "future," "intends," and similar expressions to identify forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements for any reason.

The Royce Funds have based the forward-looking statements included in this report on information available to us on the date of

the report, and we assume no obligation to update any such forward-looking statements. Although The Royce Funds undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make through future stockholder communications or reports.

## ROYCE VALUE TRUST, INC.

### SCHEDULES OF INVESTMENTS

DECEMBER 31, 2003

#### COMMON STOCKS □ 103.5%

|                                       | SHARES  | VALUE        |  | SHARES  | VALUE             |
|---------------------------------------|---------|--------------|--|---------|-------------------|
| <b>Consumer Products □ 7.3%</b>       |         |              |  |         |                   |
| Apparel and Shoes - 2.6%              |         |              | Jack in the Box <sup>a</sup>                   | 42,000  | \$ 897,120        |
|                                       |         |              | Prime Hospitality <sup>a</sup>                 | 106,100 | 1,082,220         |
| Jones Apparel Group <sup>d</sup>      | 81,500  | \$ 2,871,245 | Ryan's Family Steak Houses <sup>a</sup>        | 48,900  | 740,346           |
| K-Swiss Cl. A                         | 160,000 | 3,849,600    |  |         |                   |
| Oshkosh B'Gosh Cl. A <sup>d</sup>     | 104,300 | 2,238,278    |  |         | 12,892,727        |
| Polo Ralph Lauren Cl. A               | 150,000 | 4,320,000    |  |         |                   |
| Timberland Company Cl. A <sup>a</sup> | 30,000  | 1,562,100    | Retail Stores - 2.4%                           |         |                   |
| Weyco Group                           | 153,996 | 5,181,811    | Big Lots <sup>a</sup>                          | 207,200 | 2,944,312         |
| Wolverine World Wide                  | 84,400  | 1,720,072    | Charming Shoppes <sup>a,d</sup>                | 584,400 | 3,155,760         |
|                                       |         |              | Claire's Stores                                | 109,800 | 2,068,632         |
|                                       |         | 21,743,106   | GameStop Corporation Cl. A <sup>a,d</sup>      | 33,700  | 519,317           |
|                                       |         |              | Linens 'n Things <sup>a,d</sup>                | 38,000  | 1,143,040         |
| Collectibles - 0.2%                   |         |              | Payless ShoeSource <sup>a,d</sup>              | 289,600 | 3,880,640         |
| The Boyds Collection <sup>a</sup>     | 234,200 | 995,350      | Stein Mart <sup>a</sup>                        | 192,800 | 1,588,672         |
| Enesco Group <sup>a</sup>             | 47,200  | 487,104      | <b>Urban Outfitters <sup>a,d</sup></b>         | 152,600 | 5,653,830         |
|                                       |         | 1,482,454    |  |         | 20,954,203        |
|                                       |         |              | Other Consumer Services - 1.3%                 |         |                   |
| Food/Beverage/Tobacco - 0.7%          |         |              | ITT Educational Services <sup>a</sup>          | 85,000  | 3,992,450         |
| 800 JR Cigar <sup>a,e</sup>           | 172,400 | 2,241,200    | <b>Sotheby's Holdings Cl. A <sup>a,d</sup></b> | 510,200 | 6,969,332         |
| Hain Celestial Group <sup>a</sup>     | 37,800  | 877,338      |  |         | 10,961,782        |
| Hershey Creamery Company <sup>d</sup> | 709     | 2,357,425    |  |         |                   |
| Lancaster Colony                      | 16,900  | 763,204      |  |         |                   |
|                                       |         | 6,239,167    | <b>Total (Cost \$35,118,163)</b>               |         | <b>47,966,883</b> |
|                                       |         |              |  |         |                   |
| Home Furnishing/Appliances - 0.9%     |         |              | <b>Financial Intermediaries □ 10.4%</b>        |         |                   |
| Bassett Furniture Industries          | 116,675 | 1,925,137    | Banking - 2.6%                                 |         |                   |
| Falcon Products <sup>a,c</sup>        | 761,600 | 3,351,040    | BOK Financial <sup>a</sup>                     | 125,561 | 4,861,722         |

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|  |         |            |  |         |            |
|--|---------|------------|--|---------|------------|
| La-Z-Boy <sup>d</sup>                                | 68,200  | 1,430,836  | Farmers & Merchants Bank of Long Beach           | 1,266   | 5,570,400  |
| Natuzzi ADR <sup>b</sup>                             | 118,700 | 1,196,496  | First National Bank Alaska                       | 2,130   | 4,760,550  |
|  |         |            | Mechanics Bank                                   | 200     | 3,760,000  |
|  |         |            | Mercantile Bankshares <sup>d</sup>               | 20,000  | 911,600    |
|  |         | 7,903,509  | NetBank  | 70,000  | 934,500    |
|  |         |            | Oriental Financial Group                         | 49,225  | 1,265,083  |
| <b>Publishing - 0.5%</b>                             |         |            |  |         |            |
| Martha Stewart Living Omnimedia Cl. A <sup>a,d</sup> | 6,000   | 59,100     |  |         |            |
| Scholastic Corporation <sup>a,d</sup>                | 130,000 | 4,425,200  |  |         | 22,063,855 |
|  |         | 4,484,300  |  |         |            |
| <b>Sports and Recreation - 1.3%</b>                  |         |            | <b>Insurance - 7.0%</b>                          |         |            |
| Callaway Golf  | 35,000  | 589,750    | Alleghany Corporation <sup>a</sup>               | 9,700   | 2,158,250  |
| Coachmen Industries                                  | 47,700  | 863,847    | Argonaut Group <sup>a</sup>                      | 187,000 | 2,905,980  |
|  |         |            | Baldwin & Lyons Cl. B                            | 21,200  | 594,872    |
|  |         |            | Commerce Group                                   | 49,500  | 1,955,250  |
|  |         |            | <b>Erie Indemnity Company Cl. A <sup>d</sup></b> |         |            |
| Fleetwood Enterprises <sup>a,d</sup>                 | 234,300 | 2,403,918  | First American                                   | 169,900 | 7,200,362  |
| Monaco Coach <sup>a</sup>                            | 141,050 | 3,356,990  | Leucadia National                                | 20,000  | 595,400    |
| Oakley   | 243,100 | 3,364,504  | Markel Corporation <sup>a,d</sup>                | 51,500  | 2,374,150  |
| Thor Industries                                      | 12,100  | 680,262    | Montpelier Re Holdings                           | 4,200   | 1,064,742  |
|  |         | 11,259,271 | NYMAGIC  | 53,000  | 1,945,100  |
|  |         |            | Navigators Group <sup>a</sup>                    | 85,200  | 2,336,184  |
| <b>Other Consumer Products - 1.1%</b>                |         |            | PICO Holdings <sup>a</sup>                       | 83,200  | 2,568,384  |
| Blyth  | 54,700  | 1,762,434  | PMA Capital Cl. A <sup>d</sup>                   | 179,400 | 2,811,198  |
| Burnham Corporation Cl. B                            | 18,000  | 900,000    | PXRE Group                                       | 231,700 | 1,186,304  |
|  |         |            | Philadelphia Consolidated Holding <sup>a,d</sup> | 176,551 | 4,161,307  |
| Fossil <sup>a</sup>                                  | 15,000  | 420,150    | The Phoenix Companies <sup>d</sup>               | 35,000  | 1,709,050  |
| Lazare Kaplan International <sup>a</sup>             | 103,600 | 720,020    | ProAssurance Corporation <sup>a,d</sup>          | 81,900  | 986,076    |
| Matthews International Cl. A <sup>d</sup>            | 186,000 | 5,503,740  | RLI  | 152,070 | 4,889,050  |
|  |         |            | Reinsurance Group of America <sup>d</sup>        | 122,724 | 4,597,241  |
|  |         | 9,306,344  | Wesco Financial <sup>d</sup>                     | 30,000  | 1,159,500  |
|  |         |            | <b>White Mountains Insurance Group</b>           | 7,750   | 2,728,000  |
| <b>Total (Cost \$39,042,960)</b>                     |         | 62,418,151 | Zenith National Insurance                        | 14,500  | 6,669,275  |
|  |         |            |  | 96,900  | 3,154,095  |
| <b>Consumer Services □ 5.6%</b>                      |         |            |  |         | 59,749,770 |
| Leisure/Entertainment - 0.4%                         |         |            |  |         |            |
| Gemstar-TV Guide International <sup>a,d</sup>        | 215,100 | 1,086,255  |  |         |            |
| Hasbro   | 50,000  | 1,064,000  | <b>Securities Brokers - 0.7%</b>                 |         |            |
| Magna Entertainment Cl. A <sup>a,d</sup>             | 198,800 | 1,007,916  | E*TRADE Financial <sup>a</sup>                   | 360,000 | 4,554,000  |
|  |         | 3,158,171  | Investment Technology Group <sup>a,d</sup>       | 20,000  | 323,000    |
|  |         |            | Knight Trading Group <sup>a</sup>                | 95,000  | 1,390,800  |
| <b>Restaurants/Lodgings - 1.5%</b>                   |         |            |  |         | 6,267,800  |
| Benihana Cl. A <sup>a</sup>                          | 57,500  | 738,875    |  |         |            |
| CEC Entertainment <sup>a</sup>                       | 30,000  | 1,421,700  |  |         |            |
| Four Seasons Hotels                                  | 35,000  | 1,790,250  |  |         |            |
| <b>IHOP Corporation</b>                              | 161,700 | 6,222,216  |  |         |            |

## ROYCE VALUE TRUST, INC.

## SCHEDULES OF INVESTMENTS

DECEMBER 31, 2003

|  | SHARES  | VALUE             |   | SHARES  | VALUE             |
|--|---------|-------------------|---|---------|-------------------|
| <b>Financial Intermediaries<br/>(continued)</b>      |         |                   | Chiron Corporation <u>a,d</u>                   | 21,800  | \$ 1,242,382      |
| Other Financial Intermediaries<br>- 0.1%             |         |                   | DUSA Pharmaceuticals <u>a</u>                   | 79,700  | 402,485           |
| Chicago Mercantile Exchange                          | 10,000  | \$ 723,600        | Endo Pharmaceuticals<br>Holdings <u>a</u>       | 184,200 | 3,547,692         |
| <b>Total</b> (Cost \$52,286,851)                     |         | <u>88,805,025</u> | Genzyme Corporation <u>a</u>                    | 28,000  | 1,381,520         |
| <b>Financial Services</b> $\square$ 5.6%             |         |                   | Human Genome Sciences <u>a</u>                  | 90,000  | 1,192,500         |
| Information and Processing -<br>2.1%                 |         |                   | Invitrogen Corporation <u>a</u>                 | 40,000  | 2,800,000         |
| Barra <u>d</u>                                       | 42,200  | 1,497,678         | Lexicon Genetics <u>a</u>                       | 523,300 | 3,082,237         |
| eFunds Corporation <u>a</u>                          | 207,775 | 3,604,896         | Millennium Pharmaceuticals <u>a</u>             | 50,000  | 933,500           |
| FactSet Research Systems <u>d</u>                    | 110,000 | 4,203,100         | Perrigo Company <u>d</u>                        | 169,900 | 2,670,828         |
| Global Payments <u>d</u>                             | 68,500  | 3,227,720         | Shire Pharmaceuticals Group<br>ADR <u>a,b,d</u> | 20,853  | 605,780           |
| Moody's Corporation                                  | 30,000  | 1,816,500         |   |         | <u>25,742,869</u> |
| National Processing <u>a</u>                         | 20,000  | 471,000           | Health Services - 1.2%                          |         |                   |
| SEI Investments                                      | 93,200  | 2,839,804         | Accredo Health <u>a</u>                         | 8,705   | 275,165           |
|  |         | <u>17,660,698</u> | Albany Molecular Research <u>a,d</u>            | 89,000  | 1,336,780         |
| Insurance Brokers - 1.2%                             |         |                   | Gentiva Health Services <u>a</u>                | 30,150  | 381,096           |
| Crawford & Co. Cl. A <u>d</u>                        | 289,100 | 2,049,719         | Health Management<br>Associates Cl. A           | 27,400  | 657,600           |
| Crawford & Co. Cl. B                                 | 60,300  | 425,718           | MPATH <u>a,d</u>                                | 164,000 | 623,200           |
| Gallagher (Arthur J.) &<br>Company                   | 86,200  | 2,800,638         | Lincare Holdings <u>a</u>                       | 34,600  | 1,039,038         |
| Hilb, Rogal & Hamilton<br>Company                    | 155,050 | 4,972,454         | Manor Care <u>d</u>                             | 58,300  | 2,015,431         |
|  |         | <u>10,248,529</u> | MedQuist <u>a</u>                               | 73,893  | 1,186,722         |
| Investment Management -<br>1.9%                      |         |                   | On Assignment <u>a</u>                          | 425,200 | 2,215,292         |
| Alliance Capital Management<br>Holding L.P. <u>d</u> | 135,000 | 4,556,250         | Quovadx <u>a,d</u>                              | 173,400 | 849,660           |
| BKF Capital Group <u>a</u>                           | 35,700  | 881,076           |   |         | <u>10,579,984</u> |
| BlackRock Cl. A <u>d</u>                             | 25,000  | 1,327,750         | Personal Care - 0.7%                            |         |                   |
| Eaton Vance <u>d</u>                                 | 70,200  | 2,572,128         | Ocular Sciences <u>a</u>                        | 152,500 | 4,378,275         |
| Gabelli Asset Management Cl.<br>A <u>d</u>           | 93,100  | 3,705,380         | Regis   | 37,200  | 1,470,144         |
| Nuveen Investments Cl. A                             | 119,200 | 3,177,872         |   |         | <u>5,848,419</u>  |

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|  |         |            |   |         |            |
|--|---------|------------|---|---------|------------|
|  |         | 16,220,456 | Surgical Products and Devices<br>- 2.6%                     |         |            |
|  |         |            | Allied Healthcare Products <sup>a</sup>                     | 60,000  | 231,000    |
| Other Financial Services - 0.4%                    |         |            | <b>Arrow International</b>                                  | 272,200 | 6,799,556  |
| PRG-Schultz International <sup>a,d</sup>           | 556,200 | 2,725,380  | CONMED Corporation <sup>a</sup>                             | 81,500  | 1,939,700  |
| Van der Moolen Holding ADR <sup>b</sup>            | 49,000  | 425,810    | Datascope   | 34,000  | 1,218,900  |
|  |         |            | Diagnostic Products <sup>d</sup>                            | 25,000  | 1,147,750  |
|  |         |            | Haemonetics <sup>a</sup>                                    | 77,900  | 1,861,031  |
|  |         | 3,151,190  | Invacare  | 88,000  | 3,552,560  |
|  |         |            | Novoste <sup>a,d</sup>                                      | 66,500  | 318,535    |
| <b>Total (Cost \$34,938,083)</b>                   |         | 47,280,873 | STERIS <sup>a</sup>   | 48,600  | 1,098,360  |
|  |         |            | Varian Medical Systems <sup>a</sup>                         | 40,800  | 2,819,280  |
| <b>Health □ 10.0%</b>                              |         |            | Zoll Medical <sup>a</sup>                                   | 20,200  | 716,696    |
| Commercial Services - 2.5%                         |         |            |   |         |            |
| Covance <sup>a,d</sup>                             | 122,700 | 3,288,360  |   |         | 21,703,368 |
| First Consulting Group <sup>a</sup>                | 495,900 | 2,791,917  |   |         |            |
| Gene Logic <sup>a</sup>                            | 340,100 | 1,765,119  | <b>Total (Cost \$64,253,178)</b>                            |         | 85,109,268 |
| IDEXX Laboratories <sup>a</sup>                    | 98,000  | 4,535,440  | <b>Industrial Products □ 16.1%</b>                          |         |            |
| PAREXEL International <sup>a,d</sup>               | 277,700 | 4,515,402  | Automotive - 0.1%   |         |            |
| Pharmaceutical Product<br>Development <sup>a</sup> | 10,000  | 269,700    | CLARCOR   | 22,000  | 970,200    |
| Sybron Dental Specialties <sup>a</sup>             | 21,000  | 590,100    | IMPCO Technologies <sup>a,d</sup>                           | 15,500  | 135,160    |
| The TriZetto Group <sup>a,d</sup>                  | 190,200 | 1,226,790  | Quantam Fuel Systems<br>Technologies Worldwide <sup>a</sup> | 15,500  | 124,620    |
| Young Innovations                                  | 62,550  | 2,251,800  |   |         |            |
|  |         | 21,234,628 |   |         | 1,229,980  |
| Drugs and Biotech - 3.0%                           |         |            | Building Systems and Components -<br>1.5%                   |         |            |
| Abgenix <sup>a</sup>                               | 38,000  | 473,480    | Decker Manufacturing<br>Preformed Line Products<br>Company  | 6,022   | 196,919    |
| Affymetrix <sup>a,d</sup>                          | 81,800  | 2,013,098  | <b>Simpson Manufacturing <sup>a,d</sup></b>                 | 180,400 | 9,175,144  |
| Antigenics <sup>a,d</sup>                          | 38,500  | 435,820    |   |         | 13,158,195 |
| Applera Corporation- Celera                        |         |            | Construction Materials - 1.7%                               |         |            |
| Genomics Group <sup>a</sup>                        | 199,200 | 2,770,872  | <b>Ash Grove Cement Company</b>                             |         |            |
| Biopure Corporation Cl. A <sup>a,d</sup>           | 18,200  | 43,316     | <b>Cl. B</b>  | 50,518  | 5,961,124  |
| BioSource International <sup>a</sup>               | 1,600   | 10,832     | ElkCorp <sup>d</sup>  | 27,000  | 720,900    |
| Celgene Corporation <sup>a,d</sup>                 | 40,000  | 1,800,800  |   |         |            |
| Cephalon <sup>a,d</sup>                            | 4,900   | 237,209    |   |         |            |
| Cerus Corporation <sup>a</sup>                     | 21,700  | 98,518     |   |         |            |

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**ROYCE VALUE TRUST, INC.**

**SCHEDULES OF INVESTMENTS**

**DECEMBER 31, 2003**

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|   | SHARES  | VALUE             |  | SHARES  | VALUE              |
|---|---------|-------------------|--|---------|--------------------|
| <b>Industrial Products (continued)</b>            |         |                   |  |         |                    |
| Construction Materials (continued)                |         |                   | Maxwell Technologies <sup>a</sup>                    | 21,500  | \$ 152,650         |
| Florida Rock Industries                           | 85,800  | \$ 4,706,130      | Myers Industries                                     | 52,727  | 639,051            |
| Martin Marietta Materials <sup>d</sup>            | 8,000   | 375,760           | Peerless Mfg. <sup>a,c</sup>                         | 158,600 | 2,045,940          |
| Synalloy Corporation <sup>a,c</sup>               | 345,000 | 2,387,400         | Steelcase Cl. A                                      | 82,500  | 1,184,700          |
|   |         |                   | Trinity Industries                                   | 20,000  | 616,800            |
|   |         | <u>14,151,314</u> |  |         | <u>28,137,788</u>  |
| Industrial Components - 2.2%                      |         |                   | <b>Total (Cost \$85,356,675)</b>                     |         | <u>137,330,015</u> |
| AMETEK  | 43,000  | 2,075,180         | <b>Industrial Services <sup>□</sup> 13.7%</b>        |         |                    |
| Bel Fuse Cl. A                                    | 53,200  | 1,590,680         | Advertising/Publishing - 0.4%                        |         |                    |
| Belden  | 97,800  | 2,062,602         | Catalina Marketing <sup>a,d</sup>                    | 60,000  | 1,209,600          |
| C & D Technologies                                | 50,000  | 958,500           | Interpublic Group of Companies <sup>a</sup>          | 155,000 | 2,418,000          |
| Donaldson Company                                 | 26,000  | 1,538,160         |  |         |                    |
| <b>Penn Engineering &amp; Manufacturing</b>       | 251,600 | 4,787,948         |  |         | <u>3,627,600</u>   |
| <b>Penn Engineering &amp; Manufacturing Cl. A</b> | 77,600  | 1,311,440         |  |         |                    |
| PerkinElmer                                       | 135,000 | 2,304,450         | Commercial Services - 5.3%                           |         |                    |
| Powell Industries <sup>a</sup>                    | 57,400  | 1,099,210         | ABM Industries                                       | 179,800 | 3,130,318          |
| Woodhead Industries <sup>d</sup>                  | 45,400  | 767,260           | Administaff <sup>a,d</sup>                           | 37,500  | 651,750            |
|   |         | <u>18,495,430</u> | Allied Waste Industries <sup>a</sup>                 | 188,800 | 2,620,544          |
|   |         |                   | Carlisle Holdings <sup>a</sup>                       | 194,900 | 1,198,635          |
| Machinery - 3.9%                                  |         |                   | Central Parking                                      | 171,400 | 2,559,002          |
| Coherent <sup>a,d</sup>                           | 208,700 | 4,967,060         | Convergys Corporation <sup>a</sup>                   | 149,000 | 2,601,540          |
| Federal Signal                                    | 58,600  | 1,026,672         | DeVry <sup>a,d</sup>                                 | 25,000  | 628,250            |
| Graco   | 64,550  | 2,588,455         | Hewitt Associates Cl. A <sup>a</sup>                 | 40,000  | 1,196,000          |
| IDEX Corporation                                  | 24,000  | 998,160           | Hudson Highland Group <sup>a,d</sup>                 | 50,549  | 1,205,594          |
| <b>Lincoln Electric Holdings</b>                  | 237,880 | 5,885,151         | iGATE Corporation <sup>a</sup>                       | 116,500 | 914,525            |
| National Instruments                              | 47,600  | 2,164,372         | Iron Mountain <sup>a,d</sup>                         | 127,450 | 5,039,373          |
| <b>Nordson Corporation</b>                        | 172,200 | 5,946,066         | Korn/Ferry International <sup>a,d</sup>              | 140,700 | 1,876,938          |
| Oshkosh Truck                                     | 15,000  | 765,450           | Learning Tree International <sup>a,d</sup>           | 53,400  | 928,626            |
| PAXAR Corporation <sup>a</sup>                    | 333,100 | 4,463,540         | <b>MPS Group <sup>a,d</sup></b>                      | 609,500 | 5,698,825          |
| Woodward Governor Company                         | 73,600  | 4,182,688         | Manpower   | 55,800  | 2,627,064          |
|   |         | <u>32,987,614</u> | Metro One Telecommunications <sup>a,d</sup>          | 25,000  | 65,000             |
|   |         |                   | Monster Worldwide <sup>a</sup>                       | 79,000  | 1,734,840          |
| Paper and Packaging - 0.3%                        |         |                   | New Horizons Worldwide <sup>a</sup>                  | 277,500 | 1,578,697          |
| Peak International <sup>a</sup>                   | 408,400 | 2,287,040         | Pemstar <sup>a,d</sup>                               | 223,000 | 733,670            |
|   |         |                   | RemedyTemp Cl. A <sup>a</sup>                        | 62,500  | 681,875            |
| Pumps, Valves and Bearings - 0.6%                 |         |                   | Renaissance Learning <sup>a,d</sup>                  | 15,000  | 361,200            |
| Baldor Electric                                   | 62,900  | 1,437,265         | Reynolds & Reynolds Company Cl. A                    | 52,000  | 1,510,600          |
| ConBraCo Industries <sup>a</sup>                  | 7,630   | 648,550           | Spherion Corporation <sup>a,d</sup>                  | 49,000  | 479,710            |
| Denison International ADR <sup>a,b</sup>          | 79,400  | 1,897,660         | TRC Companies <sup>a,d</sup>                         | 28,000  | 589,680            |
| Franklin Electric                                 | 23,600  | 1,427,564         | United Stationers <sup>a,d</sup>                     | 18,000  | 736,560            |
|   |         | <u>5,411,039</u>  | Watson Wyatt & Company Holdings Cl. A <sup>a,d</sup> | 77,400  | 1,869,210          |
|   |         |                   | West Corporation <sup>a,d</sup>                      | 75,000  | 1,742,250          |
| Specialty Chemicals and Materials - 1.3%          |         |                   |  |         | <u>44,960,276</u>  |

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|   |         |                   |  |                   |
|---|---------|-------------------|--|-------------------|
| Arch Chemicals                                | 38,200  | 980,212           |  |                   |
| CFC International <sup>a</sup>                | 123,500 | 654,550           | Engineering and Construction - 1.0%          |                   |
| Hawkins                                       | 136,878 | 1,910,817         | EMCOR Group <sup>a,d</sup>                   | 22,000 965,800    |
| <b>MacDermid</b>                              | 226,631 | 7,759,845         | Insituform Technologies Cl. A <sup>a,d</sup> | 160,000 2,640,000 |
|   |         | <u>11,305,424</u> | Jacobs Engineering Group <sup>a</sup>        | 10,000 480,100    |
|   |         |                   | McDermott International <sup>a</sup>         | 71,000 848,450    |
|   |         |                   | Washington Group International <sup>a</sup>  | 100,000 3,397,000 |
| Steel/Metal Fabrication & Distribution - 1.0% |         |                   |  |                   |
| Commercial Metals Company                     | 5,000   | 152,000           |  | 8,331,350         |
| Kaydon Corporation <sup>d</sup>               | 208,700 | 5,392,808         |  |                   |
| NN  | 127,100 | 1,600,189         | Food/Tobacco Processors - 1.3%               |                   |
| Oregon Steel Mills <sup>a</sup>               | 247,900 | 1,440,299         | Farmer Bros.                                 | 15,000 4,668,750  |
|   |         | <u>8,585,296</u>  | <b>MGP Ingredients</b> <sup>c</sup>          | 417,322 6,572,822 |
|   |         |                   |  | <u>11,241,572</u> |
| Textiles - 0.2%                               |         |                   |  |                   |
| Unifi <sup>a</sup>                            | 245,100 | 1,580,895         | Industrial Distribution - 1.3%               |                   |
|   |         |                   | Central Steel & Wire                         | 3,799 1,500,605   |
| Other Industrial Products - 3.3%              |         |                   | <b>Ritchie Bros. Auctioneers</b>             | 155,200 8,241,120 |
| Albany International Cl. A                    | 45,500  | 1,542,450         | Strategic Distribution                       | 115,000 1,611,150 |
| BHA Group Holdings                            | 187,252 | 4,709,388         |  |                   |
| <b>Brady Corporation Cl. A</b>                | 139,400 | 5,680,550         |  | 11,352,875        |
| Diebold <sup>d</sup>                          | 100,000 | 5,387,000         |  |                   |
| <b>Kimball International Cl. B</b>            | 397,380 | 6,179,259         |  |                   |

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**ROYCE VALUE TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**DECEMBER 31, 2003**

|  | SHARES | VALUE            |                                     | SHARES  | VALUE            |
|--|--------|------------------|-------------------------------------|---------|------------------|
| <b>Industrial Services (continued)</b> |        |                  |                                     |         |                  |
| Printing - 0.7%                        |        |                  | Gold Fields ADR <sup>b</sup>        | 57,800  | \$ 805,732       |
| Bowne & Co.                            | 68,100 | \$ 923,436       | Hecla Mining Company <sup>a,d</sup> | 198,000 | 1,641,420        |
| Ennis Business Forms                   | 62,700 | 959,310          | MK Gold <sup>a</sup>                | 517,900 | 787,208          |
| Moore Wallace <sup>a</sup>             | 90,700 | 1,698,811        | Stillwater Mining <sup>a</sup>      | 52,296  | 500,473          |
| New England Business Service           | 68,800 | 2,029,600        |                                     |         | <u>8,033,963</u> |
|  |        | <u>5,611,157</u> | Real Estate - 1.2%                  |         |                  |
|  |        |                  | Alico                               | 52,000  | 1,807,520        |
| Transportation and Logistics - 3.1%    |        |                  | Chelsea Property Group              | 20,000  | 1,096,200        |

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|  |         |             |  |         |            |
|--|---------|-------------|--|---------|------------|
| AirNet Systems <sup>a</sup>                        | 219,000 | 825,630     | Consolidated-Tomoka Land                     | 13,564  | 443,543    |
| Alexander & Baldwin                                | 60,000  | 2,021,400   | Public Storage                               | 25,000  | 1,084,750  |
| Brink's Company (The) <sup>d</sup>                 | 137,278 | 3,103,856   | Trammell Crow Company <sup>a</sup>           | 412,400 | 5,464,300  |
| C. H. Robinson Worldwide                           | 40,000  | 1,516,400   |  |         |            |
| Continental Airlines Cl. B <sup>a,d</sup>          | 100,000 | 1,627,000   |  |         | 9,896,313  |
| EGL <sup>a</sup>                                   | 173,125 | 3,040,075   |  |         |            |
| Forward Air <sup>a</sup>                           | 166,500 | 4,578,750   | <b>Total (Cost \$46,347,366)</b>             |         | 66,092,653 |
| Frozen Food Express Industries <sup>a</sup>        | 306,635 | 2,036,056   |  |         |            |
| Hub Group Cl. A <sup>a</sup>                       | 77,000  | 1,658,580   | <b>Technology <math>\square</math> 23.3%</b> |         |            |
| Landstar System <sup>a</sup>                       | 33,600  | 1,278,144   | Aerospace/Defense - 0.9%                     |         |            |
| Patriot Transportation Holding <sup>a</sup>        | 101,300 | 3,342,900   | Armor Holdings <sup>a,d</sup>                | 28,000  | 736,680    |
| UTI Worldwide <sup>d</sup>                         | 45,000  | 1,706,850   | Curtiss-Wright <sup>d</sup>                  | 86,600  | 3,897,866  |
|  |         | 26,735,641  | Ducommun <sup>a</sup>                        | 117,200 | 2,619,420  |
|  |         |             | Herley Industries <sup>a</sup>               | 2,000   | 41,400     |
| Other Industrial Services - 0.6%                   |         |             |  |         | 7,295,366  |
| Landauer   | 117,900 | 4,807,962   | Components and Systems - 6.4%                |         |            |
| <b>Total (Cost \$81,161,608)</b>                   |         | 116,668,433 | Adaptec <sup>a</sup>                         | 99,500  | 878,585    |
| <b>Natural Resources <math>\square</math> 7.8%</b> |         |             | American Power Conversion <sup>d</sup>       | 161,200 | 3,941,340  |
| Energy Services - 3.3%                             |         |             | Analitic Corporation                         | 13,000  | 533,000    |
| Atwood Oceanics <sup>a,d</sup>                     | 19,700  | 629,218     | Dionex Corporation <sup>a,d</sup>            | 89,000  | 4,095,780  |
| Carbo Ceramics                                     | 105,600 | 5,412,000   | Excel Technology <sup>a</sup>                | 168,500 | 5,536,910  |
| Core Laboratories <sup>a</sup>                     | 91,200  | 1,522,128   | Imation Corporation                          | 15,700  | 551,855    |
| ENSCO International                                | 6,443   | 175,056     | InFocus Corporation <sup>a</sup>             | 79,000  | 764,720    |
| Global Industries <sup>a</sup>                     | 119,500 | 615,425     | Omega Corporation <sup>d</sup>               | 35,000  | 209,300    |
| Hanover Compressor Company <sup>a,d</sup>          | 175,000 | 1,951,250   | KEMET Corporation <sup>a,d</sup>             | 90,000  | 1,232,100  |
| Helmerich & Payne                                  | 156,400 | 4,368,252   | Kronos <sup>a,d</sup>                        | 38,775  | 1,535,878  |
| Hydril Company <sup>a</sup>                        | 25,000  | 598,250     | Method Electronics Cl. A                     | 50,000  | 611,500    |
| Input/Output <sup>a,d</sup>                        | 540,100 | 2,435,851   | Newport Corporation <sup>a,d</sup>           | 102,600 | 1,695,978  |
| Precision Drilling <sup>a</sup>                    | 32,500  | 1,419,600   | Perceptron <sup>a</sup>                      | 397,400 | 3,020,240  |
| TETRA Technologies <sup>a</sup>                    | 51,000  | 1,236,240   | Plexus Corporation <sup>a</sup>              | 252,600 | 4,337,142  |
| Tidewater  | 21,600  | 645,408     | Radiant Systems <sup>a</sup>                 | 32,500  | 273,325    |
| Universal Compression Holdings <sup>a</sup>        | 115,000 | 3,008,400   | Rainbow Technologies <sup>a</sup>            | 96,900  | 1,091,094  |
| Veritas DGC <sup>a</sup>                           | 123,000 | 1,289,040   | REMEC <sup>a,d</sup>                         | 189,200 | 1,591,172  |
| Willbros Group <sup>a</sup>                        | 242,600 | 2,916,052   | Scitex <sup>a</sup>                          | 245,700 | 1,238,328  |
|  |         | 28,222,170  | Symbol Technologies                          | 233,600 | 3,945,504  |
| Oil and Gas - 2.3%                                 |         |             | TTM Technologies <sup>a</sup>                | 154,500 | 2,607,960  |
| Tom Brown <sup>a</sup>                             | 125,500 | 4,047,375   | <b>Technitrol <sup>a</sup></b>               | 318,900 | 6,613,986  |
| Chesapeake Energy <sup>d</sup>                     | 82,000  | 1,113,560   | Tektronix                                    | 65,000  | 2,054,000  |
| Cimarex Energy <sup>a,d</sup>                      | 138,170 | 3,687,757   | Vishay Intertechnology <sup>a</sup>          | 65,900  | 1,509,110  |
| Denbury Resources <sup>a</sup>                     | 174,100 | 2,421,731   | Zebra Technologies Cl. A <sup>a</sup>        | 74,350  | 4,934,610  |
| EOG Resources                                      | 5,000   | 230,850     | Distribution - 1.4%                          |         |            |
| Husky Energy                                       | 85,000  | 1,543,661   | Anixter International <sup>a,d</sup>         | 41,900  | 1,084,372  |
| PetroCorp <sup>a</sup>                             | 61,400  | 826,444     | Arrow Electronics <sup>a,d</sup>             | 114,700 | 2,654,158  |
| Prima Energy <sup>a</sup>                          | 43,000  | 1,511,880   | Avnet <sup>a</sup>                           | 92,355  | 2,000,409  |
| SEACOR SMIT <sup>a</sup>                           | 83,500  | 3,509,505   | Insight Enterprises <sup>a</sup>             | 46,000  | 864,800    |
| Toreador Resources <sup>a</sup>                    | 100,300 | 466,395     | Tech Data <sup>a</sup>                       | 134,500 | 5,338,305  |
| Vintage Petroleum                                  | 48,300  | 581,049     |  |         |            |

|                                      |         |            |  |                   |
|--------------------------------------|---------|------------|--|-------------------|
|                                      |         | 19,940,207 |  | 11,942,044        |
|                                      |         |            | Internet Software and Services -<br>0.9% |                   |
| Precious Metals and Mining -<br>1.0% |         |            | CNET Networks <u>a,d</u>                 | 155,400 1,059,828 |
| AngloGold ADR <u>b,d</u>             | 49,900  | 2,330,330  | CryptoLogic                              | 202,000 2,404,002 |
| Glamis Gold <u>a</u>                 | 115,000 | 1,968,800  | CyberSource Corporation <u>a,d</u>       | 10,000 51,600     |
|                                      |         |            | DoubleClick <u>a,d</u>                   | 166,700 1,703,674 |

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**ROYCE VALUE TRUST, INC.****SCHEDULE OF INVESTMENTS****DECEMBER 31, 2003**

|  | SHARES  | VALUE        |  | SHARES  | VALUE        |
|--|---------|--------------|--|---------|--------------|
| <b>Technology (continued)</b>                    |         |              | Integral Systems                                 | 59,800  | \$ 1,286,896 |
| Internet Software and Services<br>(continued)    |         |              | JDA Software Group <u>a</u>                      | 64,900  | 1,071,499    |
| EarthLink <u>a</u>                               | 122,700 | \$ 1,227,000 | MRO Software <u>a</u>                            | 46,000  | 619,160      |
| RealNetworks <u>a,d</u>                          | 85,400  | 487,634      | Macromedia <u>a,d</u>                            | 51,600  | 920,544      |
| Satyam Computer Services<br>ADR <u>b</u>         | 20,000  | 586,600      | ManTech International Cl. A<br><u>a,d</u>        | 65,000  | 1,621,750    |
| Stamps.com <u>a</u>                              | 58,300  | 361,460      | Manugistics Group <u>a,d</u>                     | 49,200  | 307,500      |
| Vastera <u>a</u>                                 | 15,000  | 60,000       | Novell <u>a</u>                                  | 96,000  | 1,009,920    |
|  |         | 7,941,798    | Progress Software <u>a</u>                       | 30,500  | 624,030      |
|  |         |              | SPSS <u>a,d</u>                                  | 107,500 | 1,922,100    |
|  |         |              | Transaction Systems<br>Architects Cl. A <u>a</u> | 212,300 | 4,804,349    |
| IT Services - 6.0%                               |         |              |  |         |              |
| American Management<br>Systems <u>a,d</u>        | 331,900 | 5,001,733    |  |         | 18,179,009   |
| Answerthink <u>a</u>                             | 655,000 | 3,635,250    |  |         |              |
| BearingPoint <u>a,d</u>                          | 482,100 | 4,864,389    | Telecommunication - 1.4%                         |         |              |
| Black Box <u>d</u>                               | 47,000  | 2,165,290    | ADC Telecommunications <u>a,d</u>                | 113,000 | 335,610      |
| CIBER <u>a,d</u>                                 | 70,000  | 606,200      | Andrew Corporation <u>a</u>                      | 30,000  | 345,300      |
| Covansys Corporation <u>a</u>                    | 251,600 | 2,767,600    | Catapult Communications <u>a</u>                 | 75,100  | 1,088,950    |
| DiamondCluster International<br>Cl. A <u>a,d</u> | 137,800 | 1,405,560    | Covad Communications Group<br><u>a,d</u>         | 213,000 | 766,800      |
| Forrester Research <u>a,d</u>                    | 91,500  | 1,635,105    | Globecomm Systems <u>a,d</u>                     | 233,700 | 1,110,075    |
| Gartner Cl. A <u>a,d</u>                         | 291,000 | 3,291,210    | IDT Corporation <u>a</u>                         | 25,000  | 553,750      |
| CGI Group Cl. A <u>a</u>                         | 106,700 | 666,875      | IDT Corporation Cl. B <u>a,d</u>                 | 40,000  | 925,200      |
| <b>Keane</b> <u>a</u>                            | 443,000 | 6,485,520    | Inet Technologies <u>a</u>                       | 65,000  | 780,000      |
| MAXIMUS <u>a,d</u>                               | 107,400 | 4,202,562    | Level 3 Communications <u>a,d</u>                | 388,400 | 2,213,880    |
| Perot Systems Cl. A <u>a</u>                     | 165,100 | 2,225,548    | PECO II <u>a</u>                                 | 93,600  | 104,926      |
| QRS Corporation <u>a</u>                         | 57,500  | 466,900      | Plantronics <u>a,d</u>                           | 55,100  | 1,799,015    |
| Sapient Corporation <u>a</u>                     | 944,400 | 5,288,640    | Time Warner Telecom Cl. A <u>a</u>               | 179,000 | 1,813,270    |
| Syntel   | 72,400  | 1,789,004    |  |         |              |
| Unisys Corporation <u>a,d</u>                    | 325,000 | 4,826,250    |  |         | 11,836,776   |

|  |         |            |  |             |
|--|---------|------------|--|-------------|
|  |         | 51,323,636 | <b>Total</b> (Cost \$139,099,913)                      | 198,827,922 |
| Semiconductors and Equipment - 4.2%    |         |            | <b>Utilities</b> $\square$ <b>0.1%</b>                 |             |
| Artisan Components <u>a,d</u>          | 15,000  | 307,500    | Southern Union <u>a</u>                                | 10,500      |
| BE Semiconductor Industries <u>a</u>   | 58,000  | 492,420    |  | 193,200     |
| <b>Cabot Microelectronics</b> <u>a</u> | 125,000 | 6,125,000  | <b>Total</b> (Cost \$132,500)                          | 193,200     |
| CEVA <u>a,d</u>                        | 31,666  | 329,326    |  |             |
| Cognex Corporation                     | 118,400 | 3,343,616  | <b>Miscellaneous</b> $\square$ <b>3.6%</b>             |             |
| Credence Systems <u>a,d</u>            | 10,600  | 139,496    | <b>Total</b> (Cost \$25,222,259)                       | 30,284,076  |
| Cymer <u>a,d</u>                       | 14,500  | 669,755    |  |             |
| DSP Group <u>a</u>                     | 115,000 | 2,864,650  | <b>TOTAL COMMON STOCKS</b>                             |             |
| DuPont Photomasks <u>a,d</u>           | 35,000  | 844,900    | (Cost \$602,959,556)                                   | 880,976,499 |
| Electroglass <u>a,d</u>                | 281,700 | 1,028,205  |  |             |
| Exar Corporation <u>a</u>              | 69,400  | 1,185,352  | <b>PREFERRED STOCK</b> $\square$ <b>0.1%</b>           |             |
|  |         |            | Aristotle Corporation 11.00% Conv.                     | 4,800       |
| Fairchild Semiconductor Cl. A <u>a</u> | 66,200  | 1,653,014  |  | 36,720      |
| GlobespanVirata <u>a</u>               | 76,000  | 446,880    |  |             |
| Helix Technology                       | 36,900  | 759,402    | <b>TOTAL PREFERRED STOCK</b>                           |             |
| Integrated Circuit Systems <u>a</u>    | 75,000  | 2,136,750  | (Cost \$31,005)  | 36,720      |
| Intevac <u>a</u>                       | 109,050 | 1,538,696  |  |             |
| Kulicke & Soffa Industries <u>a</u>    | 105,800 | 1,521,404  |  |             |
| Lattice Semiconductor <u>a,d</u>       | 254,000 | 2,458,720  |  |             |
| Mentor Graphics <u>a</u>               | 225,700 | 3,281,678  |  |             |
|  |         |            | <b>CORPORATE BONDS</b> $\square$                       |             |
| National Semiconductor <u>a</u>        | 38,200  | 1,505,462  | <b>0.2%</b>  |             |
| Novellus Systems <u>a</u>              | 12,000  | 504,600    | Dixie Group 7.00%                                      |             |
| Semitool <u>a</u>                      | 50,000  | 536,050    | Conv. Sub. Deb. due 5/15/12                            | \$ 537,000  |
| Veeco Instruments <u>a,d</u>           | 65,000  | 1,833,000  | Richardson Electronics 7.25%                           | 472,560     |
|  |         |            | Conv. Sub. Deb. due 12/15/06                           | 1,319,000   |
|  |         | 35,505,876 |  | 1,213,480   |
|  |         |            | <b>TOTAL CORPORATE BONDS</b>                           |             |
|  |         |            | (Cost \$1,570,870)                                     | 1,686,040   |
| Software - 2.1%                        |         |            |  |             |
| ANSYS <u>a</u>                         | 10,000  | 397,000    | <b>U.S. TREASURY OBLIGATIONS</b> $\square$ <b>3.2%</b> |             |
| Aspen Technology <u>a,d</u>            | 27,100  | 278,046    | U.S. Treasury Notes                                    |             |
| Autodesk                               | 106,000 | 2,605,480  | 5.625%, due 2/15/06                                    | 25,000,000  |
| Business Objects ADR <u>a,b,d</u>      | 20,500  | 710,735    |  | 26,942,375  |
|  |         |            | <b>TOTAL U.S. TREASURY OBLIGATIONS</b>                 |             |
|  |         |            | (Cost \$26,849,375)                                    | 26,942,375  |

## SCHEDULE OF INVESTMENTS

DECEMBER 31, 2003

|  | VALUE          |   | VALUE                 |
|--|----------------|---|-----------------------|
| <b>REPURCHASE AGREEMENT</b> $\square$ <b>19.0%</b>   |                |   |                       |
| State Street Bank & Trust Company,<br>0.30% dated 12/31/03, due 1/2/04,<br>maturity value \$162,203,703<br>(collateralized<br>by U.S. Treasury Bonds, 0.00% due<br>3/25/04 |                | Money Market Funds<br>State Street Navigator Securities<br>Lending<br>Prime Portfolio | \$ 70,716,012         |
|  |                | <b>Total</b> (Cost \$70,768,029)  | 70,768,029            |
| and U.S. Treasury Notes, 1.50%-1.75%<br>due 12/31/04-7/31/05, valued at<br>\$165,454,825)<br>(Cost \$162,201,000)  | \$ 162,201,000 | <b>TOTAL INVESTMENTS</b> $\square$ <b>134.3%</b><br>(Cost \$864,379,835)              | 1,142,610,663         |
| <b>COLLATERAL RECEIVED FOR SECURITIES<br/>LOANED</b> $\square$ <b>8.3%</b>   |                | <b>LIABILITIES LESS CASH<br/>AND OTHER ASSETS</b> $\square$ <b>(8.4)%</b>             | (71,837,548)          |
| U.S. Treasury Bonds<br>10.375%-12.00% due<br>11/15/12-8/15/13  | 42,769         | <b>PREFERRED STOCK</b> $\square$ <b>(25.9)%</b>                                       | (220,000,000)         |
| U.S. Treasury Notes<br>2.125%-3.875% due 5/31/04-7/15/12   | 5,623          | <b>NET ASSETS APPLICABLE TO<br/>COMMON STOCKHOLDERS</b> $\square$                     |                       |
| U.S. Treasury Bills<br>due 2/5/04  | 3,625          | <b>100.0%</b>   | <b>\$ 850,773,115</b> |

<sup>a</sup> Non-income producing.

<sup>b</sup> American Depository Receipt.

<sup>c</sup> At December 31, 2003, the Fund owned 5% or more of the Company's outstanding voting securities thereby making the Company an Affiliated Company as that term is defined in the Investment Company Act of 1940. The market value and cost of the affiliates at December 31, 2003 was \$18,656,762 and \$15,311,408, respectively.

<sup>d</sup> A portion of these securities were on loan at December 31, 2003. Total market value of loaned securities at December 31, 2003 was \$67,367,384.

<sup>e</sup> A security for which market quotations are no longer readily available represents 0.3% of net assets. This security has been valued at its fair value under procedures established by the Fund's Board of Directors.

$\square$  New additions in 2003.

**Bold indicates the Fund's largest 20 equity holdings in terms of December 31, 2003 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$867,973,689. At December 31, 2003, net unrealized appreciation for all securities was \$274,636,974, consisting of aggregate gross unrealized appreciation of \$317,612,471 and aggregate gross unrealized depreciation of \$42,975,497. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and amortization of discount for book and tax purposes.

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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**ROYCE VALUE TRUST, INC.**

DECEMBER 31,  
2003

## STATEMENT OF ASSETS AND LIABILITIES

**ASSETS:**

|   |                |
|---|----------------|
| Investments at value (cost \$702,178,835) □ including \$70,768,029 of collateral on loaned securities | \$ 980,409,663 |
| Repurchase agreement (at cost and value)  | 162,201,000    |
| Cash  | 204,977        |
| Receivable for investments sold   | 763,629        |
| Receivable for dividends and interest   | 1,008,448      |
| Prepaid expenses  | 20,856         |

|              |               |
|--------------|---------------|
| Total Assets | 1,144,608,573 |
|--------------|---------------|

**LIABILITIES:**

|  |            |
|--|------------|
| Payable for collateral on loaned securities      | 70,768,029 |
| Payable for investments purchased                | 1,612,603  |
| Payable for investment advisory fee              | 977,568    |
| Preferred dividends accrued but not yet declared | 288,449    |
| Accrued expenses                                 | 188,809    |

|                   |            |
|-------------------|------------|
| Total Liabilities | 73,835,458 |
|-------------------|------------|

**PREFERRED STOCK:**

|  |             |
|--|-------------|
| 5.90% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share; 8,800,000 shares outstanding | 220,000,000 |
|--|-------------|

|                       |             |
|-----------------------|-------------|
| Total Preferred Stock | 220,000,000 |
|-----------------------|-------------|

|   |                       |
|---|-----------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 850,773,115</b> |
|---|-----------------------|

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|   |                |
|---|----------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 49,956,349 shares outstanding (150,000,000 shares authorized) | \$ 577,693,079 |
| Accumulated net realized loss on investments  | (4,862,343)    |
| Net unrealized appreciation on investments  | 278,230,828    |
| Preferred dividends accrued but not yet declared  | (288,449)      |

|  |                |
|--|----------------|
| Net Assets applicable to Common Stockholders (net asset value per share □ \$17.03) | \$ 850,773,115 |
|--|----------------|

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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ROYCE VALUE TRUST, INC.

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31,  
2003

**INVESTMENT INCOME:**

|   |                    |
|---|--------------------|
| Income:                                       |                    |
| Dividends                                     | \$ 6,586,470       |
| Interest                                      | 1,147,303          |
| Securities lending                            | 139,448            |
| <b>Total income</b>                           | <b>7,873,221</b>   |
| Expenses:                                     |                    |
| Investment advisory fees                      | 10,196,974         |
| Stockholder reports                           | 354,471            |
| Custody and transfer agent fees               | 221,988            |
| Administrative and office facilities expenses | 113,988            |
| Professional fees                             | 110,794            |
| Directors' fees                               | 103,168            |
| Other expenses                                | 131,674            |
| <b>Total expenses</b>                         | <b>11,233,057</b>  |
| Fees waived by investment advisor             | (866,667)          |
| <b>Net expenses</b>                           | <b>10,366,390</b>  |
| <b>Net investment loss</b>                    | <b>(2,493,169)</b> |

**REALIZED AND UNREALIZED GAIN ON INVESTMENTS:**

|  |                    |
|--|--------------------|
| Net realized gain on investments                       | 74,989,675         |
| Net change in unrealized appreciation on investments   | 208,275,790        |
| <b>Net realized and unrealized gain on investments</b> | <b>283,265,465</b> |

**NET INCREASE IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS**

280,772,296

**DISTRIBUTIONS TO PREFERRED STOCKHOLDERS**

(12,274,332)

**NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS**

\$ 268,497,964

**STATEMENT OF CHANGES IN NET ASSETS**

|   | Year ended<br>December 31,<br>2003 | Year ended<br>December 31,<br>2002 |
|---|------------------------------------|------------------------------------|
| <b>INVESTMENT OPERATIONS:</b>   |                                    |                                    |
| Net investment loss   | \$ (2,493,169)                     | \$ (583,347)                       |
| Net realized gain on investments  | 74,989,675                         | 62,933,497                         |
| Net change in unrealized appreciation on investments                              | 208,275,790                        | (156,381,089)                      |
| <b>Net increase (decrease) in net assets resulting from investment operations</b> | <b>280,772,296</b>                 | <b>(94,030,939)</b>                |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>                                   |                                    |                                    |
| Net investment income   | □                                  | (581,030)                          |

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|   |                     |                      |
|---|---------------------|----------------------|
| Net realized gain on investments  | (12,252,107)        | (11,398,970)         |
| Quarterly distributions accrued but not yet declared  | (22,225)            | □                    |
| <b>Total distributions to Preferred Stockholders</b>  | <b>(12,274,332)</b> | <b>(11,980,000)</b>  |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>268,497,964</b>  | <b>(106,010,939)</b> |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                     |                      |
| Net investment income   | □                   | (2,981,664)          |
| Net realized gain on investments  | (61,293,595)        | (58,496,049)         |
| <b>Total distributions to Common Stockholders</b>   | <b>(61,293,595)</b> | <b>(61,477,713)</b>  |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                     |                      |
| Net proceeds from rights offering   | 54,487,617          | □                    |
| Offering costs from issuance of Preferred Stock   | (7,261,800)         | □                    |
| Reinvestment of distributions to Common Stockholders  | 35,567,306          | 39,123,307           |
| <b>Total capital stock transactions</b>   | <b>82,793,123</b>   | <b>39,123,307</b>    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>                                      | <b>289,997,492</b>  | <b>(128,365,345)</b> |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |                     |                      |
| Beginning of year   | 560,775,623         | 689,140,968          |
| End of year   | \$ 850,773,115      | \$ 560,775,623       |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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## ROYCE VALUE TRUST, INC.

### FINANCIAL HIGHLIGHTS

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.  
Years ended December 31,

|   | 2003    | 2002    | 2001    | 2000    | 1999    |
|---|---------|---------|---------|---------|---------|
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b> | \$13.22 | \$17.31 | \$16.56 | \$15.77 | \$15.72 |
| <b>INVESTMENT OPERATIONS:</b>               |         |         |         |         |         |
| Net investment income (loss)                | (0.05)  | (0.02)  | 0.05    | 0.18    | 0.26    |

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|   |                |                |                |                 |                 |
|---|----------------|----------------|----------------|-----------------|-----------------|
| Net realized and unrealized gain (loss) on investments  | 5.64           | (2.25)         | 2.58           | 2.58            | 1.65            |
| Total investment operations   | 5.59           | (2.27)         | 2.63           | 2.76            | 1.91            |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                |                |                |                 |                 |
| Net investment income   | □              | (0.01)         | (0.01)         | (0.03)          | (0.04)          |
| Net realized gain on investments  | (0.26)         | (0.28)         | (0.30)         | (0.30)          | (0.32)          |
| Total distributions to Preferred Stockholders   | (0.26)         | (0.29)         | (0.31)         | (0.33)          | (0.36)          |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> |                |                |                |                 |                 |
|   | 5.33           | (2.56)         | 2.32           | 2.43            | 1.55            |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                |                |                |                 |                 |
| Net investment income   | □              | (0.07)         | (0.05)         | (0.13)          | (0.15)          |
| Net realized gain on investments  | (1.30)         | (1.44)         | (1.44)         | (1.35)          | (1.22)          |
| Total distributions to Common Stockholders  | (1.30)         | (1.51)         | (1.49)         | (1.48)          | (1.37)          |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                |                |                |                 |                 |
| Effect of reinvestment of distributions by Common Stockholders  | (0.00)         | (0.02)         | (0.08)         | (0.16)          | (0.13)          |
| Effect of rights offering and Preferred Stock offering  | (0.22)         | □              | □              | □               | □               |
| Total capital stock transactions  | (0.22)         | (0.02)         | (0.08)         | (0.16)          | (0.13)          |
| <b>NET ASSET VALUE, END OF PERIOD</b>   | <b>\$17.03</b> | <b>\$13.22</b> | <b>\$17.31</b> | <b>\$16.56</b>  | <b>\$15.77</b>  |
| <b>MARKET VALUE, END OF PERIOD</b>  | <b>\$17.21</b> | <b>\$13.25</b> | <b>\$15.72</b> | <b>\$14.438</b> | <b>\$13.063</b> |
| <b>TOTAL RETURN (a):</b>  |                |                |                |                 |                 |
| Market Value  | 42.0%          | (6.9)%         | 20.0%          | 22.7%           | 5.7%            |
| Net Asset Value   | 40.8%          | (15.6)%        | 15.2%          | 16.6%           | 11.7%           |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |                |                |                |                 |                 |
| Total expenses (b,c)  | 1.49%          | 1.72%          | 1.61%          | 1.43%           | 1.39%           |
| Management fee expense  | 1.34%          | 1.56%          | 1.45%          | 1.25%           | 1.18%           |
| Other operating expenses  | 0.15%          | 0.16%          | 0.16%          | 0.18%           | 0.21%           |
| Net investment income (loss)  | (0.36)%        | (0.09)%        | 0.35%          | 1.18%           | 1.47%           |
| <b>SUPPLEMENTAL DATA:</b>   |                |                |                |                 |                 |
| Net Assets Applicable to Common Stockholders,   |                |                |                |                 |                 |
| End of Period (in thousands)  | \$850,773      | \$560,776      | \$689,141      | \$623,262       | \$552,928       |
| Liquidation Value of Preferred Stock, End of Period (in thousands)  | \$220,000      | \$160,000      | \$160,000      | \$160,000       | \$160,000       |
| Portfolio Turnover Rate   | 23%            | 35%            | 30%            | 36%             | 41%             |
| <b>PREFERRED STOCK:</b>   |                |                |                |                 |                 |
| Total shares outstanding  | 8,800,000      | 6,400,000      | 6,400,000      | 6,400,000       | 6,400,000       |
| Asset coverage per share  | \$121.68       | \$112.62       | \$132.68       | \$122.38        | \$111.40        |
| Liquidation preference per share  | \$25.00        | \$25.00        | \$25.00        | \$25.00         | \$25.00         |

| Average market value per share (d): |         |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|---------|
| 5.90% Cumulative                    | \$25.04 | □       | □       | □       | □       |
| 7.80% Cumulative                    | \$25.87 | \$26.37 | \$25.70 | \$23.44 | \$24.98 |
| 7.30% Tax-Advantaged Cumulative     | \$25.53 | \$25.82 | \$25.37 | \$22.35 | \$24.24 |

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.19%, 1.38%, 1.30%, 1.12% and 1.06% for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.62%, 1.82%, 1.65%, 1.51% and 1.48% for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.
- (d) The average of month-end market values during the period that the preferred stock was outstanding.

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## ROYCE VALUE TRUST, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Summary of Significant Accounting Policies:

Royce Value Trust, Inc. (the Fund) was incorporated under the laws of the State of Maryland on July 1, 1986 as a diversified closed-end investment company. The Fund commenced operations on November 26, 1986.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

#### Valuation of Investments:

Securities are valued as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange or Nasdaq are valued at their last reported sales price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their bid price. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. Bonds and other fixed income securities may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services.

#### Investment Transactions and Related Investment Income:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and any non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax

purposes.

**Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated in an equitable manner. Allocated personnel and occupancy costs related to The Royce Funds are included in administrative and office facilities expenses. The Fund has adopted a deferred fee agreement that allows the Fund's Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Taxes:**

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information".

**Distributions:**

The Fund currently has a policy of paying quarterly distributions on the Fund's Common Stock. Distributions are currently being made at the annual rate of 9% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 2.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are recorded on an accrual basis and paid quarterly. The Fund is required to allocate long-term capital gain distributions and other types of income proportionately to distributions made to holders of shares of Common Stock and Preferred Stock. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax basis differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

**Repurchase Agreements:**

The Fund enters into repurchase agreements with respect to its portfolio securities solely with State Street Bank and Trust Company ("SSB&T"), the custodian of its assets. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held by SSB&T until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of SSB&T, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

**Securities Lending:**

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral on all securities loaned for the Fund is accepted in cash and is invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities.

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**ROYCE VALUE TRUST, INC.**

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**Capital Stock:**

The Fund issued 2,448,904 and 2,615,641 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2003 and 2002, respectively.

On March 10, 2003, the Fund completed a rights offering of Common Stock to its stockholders at the rate of one common share for each 10 rights held by stockholders of record on January 28, 2003. The rights offering was fully subscribed, resulting in the issuance of 5,090,083 common shares at a price of \$10.77, and proceeds of \$54,820,194 to the Fund prior to the deduction of estimated expenses of \$332,577. The net asset value per share of the Fund's Common Stock was reduced by approximately \$0.07 per share as a result of the issuance.

On October 10, 2003, the Fund redeemed all (2,400,000 shares) of its then outstanding 7.80% Cumulative Preferred Stock at the redemption price of \$25.00 per share plus accumulated and unpaid dividends through the redemption date of \$0.0975 per share, and all (4,000,000 shares) of its outstanding 7.30% Tax-Advantaged Cumulative Preferred Stock at the redemption price of \$25.00 per share plus accumulated and unpaid dividends through the redemption date of \$0.09125 per share. On October 9, 2003, the Fund received net proceeds of \$213,070,000 (after underwriting discounts of \$6,930,000 and before estimated offering expenses of \$331,800) from the public offering of 8,800,000 shares of 5.90% Cumulative Preferred Stock. Commencing October 9, 2008 and thereafter, the Fund, at its option, may redeem the 5.90% Cumulative Preferred Stock, in whole or in part, at the redemption price.

At December 31, 2003, 8,800,000 shares of the 5.90% Cumulative Preferred Stock were outstanding. The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Preferred Stock.

Under Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer. Subject to the guidance of the EITF, the Fund's Cumulative Preferred Stock has been reclassified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements.

**Investment Advisory Agreement:**

As compensation for its services under the Investment Advisory Agreement, Royce & Associates, LLC (["Royce"]) receives a fee comprised of a Basic Fee (["Basic Fee"]) and an adjustment to the Basic Fee based on the investment performance of the Fund in relation to the investment record of the S&P 600 SmallCap Index (["S&P 600"]).

The Basic Fee is a monthly fee equal to 1/12 of 1% (1% on an annualized basis) of the average of the Fund's month-end net assets applicable to Common Stockholders plus the liquidation value of Preferred Stock for the rolling 60-month period ending with such month. The Basic Fee for each month is increased or decreased at the rate of 1/12 of .05% for each percentage point that the investment performance of the Fund exceeds, or is exceeded by, the percentage change in the investment record of the S&P 600 for the performance period by more than two percentage points. The maximum increase or decrease in the Basic Fee for any month may not exceed 1/12 of .5%. Accordingly, for each month, the maximum monthly fee rate as adjusted for performance is 1/12 of 1.5% and is payable if the investment performance of the Fund exceeds the percentage change in the investment record of the S&P 600 by 12 or more percentage points for the performance period, and the minimum monthly fee rate as adjusted for performance is 1/12 of .5% and is payable if the percentage change in the investment record of the S&P 600 exceeds the investment performance of the Fund by 12 or more percentage points for the performance period.

Notwithstanding the foregoing, Royce is not entitled to receive any fee for any month when the investment performance of the Fund for the rolling 36-month period ending with such month is negative. In the event that the Fund's investment performance for such a performance period is less than zero, Royce will not be required to refund to the Fund any fee earned in respect of any prior performance period.

Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the applicable Preferred Stock dividend rate.

For the year ended December 31, 2003 the Fund accrued and paid Royce advisory fees totaling \$9,330,307, which is net of \$866,667 voluntarily waived by Royce.

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**ROYCE VALUE TRUST, INC.****NOTES TO FINANCIAL STATEMENTS (CONTINUED)****Distributions to Stockholders:**

The tax character of distributions paid to stockholders during 2003 and 2002 was as follows:

| Distributions paid<br>from: | 2003         | 2002         |
|-----------------------------|--------------|--------------|
| Ordinary income             | \$ 1,416,811 | \$ 6,028,029 |

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|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Long-term capital gain | 72,128,891        | 67,429,684        |
|                        | <u>73,545,702</u> | <u>73,457,713</u> |
|                        | \$                | \$                |

As of December 31, 2003, the tax basis components of distributable earnings included in stockholders' equity were as follows:

|                                      |                       |
|--------------------------------------|-----------------------|
| Post October loss                    | \$ (2,394,565)        |
| Undistributed long-term capital gain | 1,126,076             |
| Unrealized appreciation              | 274,636,974           |
| Accrued preferred distributions      | (288,449)             |
|                                      | <u>\$ 273,080,036</u> |

Under current tax law, capital losses realized after October 31 and prior to the Fund's fiscal year end may be deferred, as occurring on the first day of the following fiscal year.

For financial reporting purposes, capital accounts and distributions to shareholders are adjusted to reflect the tax character of permanent book / tax differences. For the year ended December 31, 2003, the Fund recorded the following permanent reclassifications, which relate primarily to the current net operating losses. Results of operations and net assets were not affected by these reclassifications.

|   |  |                    |
|---|--|--------------------|
| Undistributed<br>Net Investment<br>Income | Accumulated<br>Net Realized<br>Gain (Loss) | Paid-in<br>Capital |
| <u>\$ 2,493,169</u>                       | <u>\$ (2,493,169)</u>                      | <u>\$ 0</u>        |

**Purchases and Sales of Investment Securities:**

For the year ended December 31, 2003, the cost of purchases and proceeds from sales of investment securities, other than short-term securities, amounted to \$183,043,350 and \$265,871,410, respectively.

**Transactions in Shares of Affiliated Companies:**

An "Affiliated Company", as defined in the Investment Company Act of 1940, is a company in which a Fund owns 5% or more of the company's outstanding voting securities. The Fund effected the following transactions in shares of such companies during the year ended December 31, 2003:

| Affiliated Company                               | Market Value<br>12/31/02 | Purchases    | Sales        | Realized and<br>Unrealized Gain<br>(Loss) | Dividend<br>Income | Market Value<br>12/31/03 |
|--|--------------------------|--------------|--------------|---|--------------------|--------------------------|
| Ascent Media Group Cl. A CompX                   | \$ 426,608               | 0            | \$ 1,224,840 | \$ 78,658                                 | 0                  | \$ 0                     |
| International Falcon Products MGP                | 0                        | \$ 2,531,550 | 0            | 554,530                                   | 0                  | 3,086,080                |
| Ingredients Peerless Mfg. Richardson Electronics | 1,526,850                | 1,635,894    | 291,955      | 312,941                                   | 0                  | 3,351,040                |
| 7.25% Conv. due 12/15/06                         | 2,505,360                | 842,029      | 0            | 3,225,433                                 | \$ 48,180          | 6,572,822                |
| Synalloy Corporation                             | 1,316,380                | 0            | 0            | 729,560                                   | 0                  | 2,045,940                |
|  | 1,055,200                | 0            | 0            | 158,280                                   | 0                  | 1,213,480                |
|  | 0                        | 1,797,450    | 0            | 589,950                                   | 0                  | 2,387,400                |

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## ROYCE VALUE TRUST, INC.

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### REPORT OF INDEPENDENT AUDITORS

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#### To the Board of Directors and Stockholders of Royce Value Trust, Inc.

We have audited the accompanying statement of assets and liabilities of Royce Value Trust, Inc., including the schedule of investments, as of December 31, 2003, and the related statement of operations for the year then ended, and the statement of changes in net assets for the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2003, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us present fairly, in all material respects, the financial position of Royce Value Trust, Inc. at December 31, 2003, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER

Philadelphia, PA  
January 24, 2004

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## ROYCE MICRO-CAP TRUST, INC.

## SCHEDULE OF INVESTMENTS

DECEMBER 31, 2003

## COMMON STOCKS □

102.4%

|   | SHARES  | VALUE      |  | SHARES  | VALUE             |
|---|---------|------------|--|---------|-------------------|
| <b>Consumer Products □ 9.0%</b>             |         |            | Restaurants/Lodgings - 0.2%                    |         |                   |
| Apparel and Shoes - 2.7%                    |         |            | Angelo and Maxie □s <sup>a</sup>               | 3,333   | \$ 4,733          |
| Ashworth <sup>a</sup>                       | 40,000  | \$ 322,800 | Benihana Cl. A <sup>a</sup>                    | 34,770  | 446,794           |
| <b>Delta Apparel</b>                        | 146,500 | 2,609,165  | BUCA <sup>a,c</sup>                            | 30,000  | 204,300           |
| Innovo Group <sup>a,c</sup>                 | 90,000  | 286,200    |  |         |                   |
| Kleinert □s <sup>a,d</sup>                  | 14,200  | 0          |  |         | 655,827           |
| Marisa Christina <sup>a</sup>               | 76,600  | 122,560    |  |         |                   |
| Oshkosh B □ Gosh Cl. A <sup>c</sup>         | 37,000  | 794,020    | Retail Stores - 4.0%                           |         |                   |
| Sechers U.S.A. Cl. A <sup>a,c</sup>         | 47,000  | 383,050    | Brookstone <sup>a</sup>                        | 34,500  | 735,195           |
| Vans <sup>a</sup>                           | 20,000  | 228,200    | Buckle (The)                                   | 36,500  | 808,475           |
| <b>Weyco Group</b>                          | 60,000  | 2,018,940  | Cato Corporation Cl. A                         | 58,000  | 1,189,000         |
|   |         |            | Deb Shops                                      | 19,900  | 427,850           |
|   |         | 6,764,935  | Dress Barn (The) <sup>a</sup>                  | 53,660  | 804,363           |
|   |         |            | FD Cl. A <sup>a,c</sup>                        | 10,000  | 246,400           |
| Collectibles - 1.0%                         |         |            | Footstar <sup>a,c</sup>                        | 97,000  | 371,510           |
| The Boyds Collection <sup>a,c</sup>         | 227,700 | 967,725    | InterTAN <sup>a</sup>                          | 49,800  | 503,976           |
| Enesco Group <sup>a</sup>                   | 52,400  | 540,768    | La Senza Corporation                           | 99,900  | 977,858           |
| Topps Company (The)                         | 101,000 | 1,036,260  | <b>Stein Mart <sup>a</sup></b>                 | 285,200 | 2,350,048         |
|   |         | 2,544,753  | United Retail Group <sup>a</sup>               | 60,600  | 179,376           |
|   |         |            | Wet Seal (The) Cl. A <sup>a,c</sup>            | 157,000 | 1,552,730         |
| Food/Beverage/Tobacco - 1.4%                |         |            |  |         | 10,146,781        |
| <b>800 JR Cigar <sup>a,d</sup></b>          | 193,000 | 2,509,000  | Other Consumer Services - 0.6%                 |         |                   |
| Green Mountain Coffee Roasters <sup>a</sup> | 28,600  | 658,372    | Ambassadors Group                              | 7,500   | 176,175           |
| Monterey Pasta Company <sup>a</sup>         | 79,000  | 294,670    | Ambassadors International                      | 6,100   | 76,250            |
|   |         | 3,462,042  | E-LOAN <sup>a,c</sup>                          | 80,500  | 239,890           |
|   |         |            | First Cash Financial Services <sup>a</sup>     | 12,000  | 307,692           |
| Home Furnishing/Appliances - 1.2%           |         |            | Rent-Way <sup>a,c</sup>                        | 81,000  | 663,390           |
| Bassett Furniture Industries                | 26,300  | 433,950    |  |         | 1,463,397         |
| Falcon Products <sup>a</sup>                | 150,000 | 660,000    |  |         |                   |
| Lifetime Hoan <sup>c</sup>                  | 109,854 | 1,856,533  | <b>Total (Cost \$9,437,883)</b>                |         | <b>12,977,275</b> |
| Stanley Furniture Company <sup>c</sup>      | 2,500   | 78,750     |  |         |                   |
|   |         | 3,029,233  | <b>Diversified Investment Companies □ 0.4%</b> |         |                   |
|   |         |            | Closed-End Mutual Funds - 0.4%                 |         |                   |
| Publishing - 0.4%                           |         |            | Central Fund of Canada Cl. A                   | 197,000 | 1,034,250         |
| Information Holdings <sup>a</sup>           | 40,000  | 884,000    |  |         | 1,034,250         |
|   |         |            | <b>Total (Cost \$856,524)</b>                  |         | <b>1,034,250</b>  |
| Sports and Recreation - 1.0%                |         |            | <b>Financial Intermediaries □ 6.1%</b>         |         |                   |
| Johnson Outdoors Cl. A <sup>a</sup>         | 33,600  | 504,101    | Banking - 1.6%                                 |         |                   |
| Monaco Coach <sup>a</sup>                   | 75,900  | 1,806,420  | First Midwest Financial                        | 64,800  | 1,399,680         |
| National R.V. Holdings <sup>a</sup>         | 31,800  | 316,410    |  |         |                   |

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|  |         |            |   |         |            |
|--|---------|------------|---|---------|------------|
|  |         |            | First National Lincoln                    | 13,400  | 668,633    |
|  |         | 2,626,931  | Lakeland Financial                        | 22,500  | 794,700    |
|  |         |            | Pacific Mercantile Bancorp <sup>a,c</sup> | 15,000  | 145,050    |
| Other Consumer Products -                      |         |            | Queen City Investments <sup>a</sup>       | 948     | 475,896    |
| 1.3%   |         |            | Sterling Bancorp                          | 18,150  | 517,275    |
| Concord Camera <sup>a,c</sup>                  | 30,000  | 277,500    |   |         |            |
| Cross (A. T.) & Company Cl. A <sup>a,c</sup>   | 100,000 | 667,000    |   |         |            |
| First Years (The)                              | 25,600  | 382,464    |   |         | 4,001,234  |
| JAKKS Pacific <sup>a</sup>                     | 35,000  | 460,600    |   |         |            |
| Lazare Kaplan International <sup>a</sup>       | 151,700 | 1,054,315  | Insurance - 4.5%                          |         |            |
| Water Pik Technologies <sup>a</sup>            | 46,500  | 570,555    | Argonaut Group <sup>a,c</sup>             | 30,900  | 480,186    |
|  |         | 3,412,434  | Ceres Group <sup>a</sup>                  | 50,300  | 293,752    |
|  |         |            | Independence Holding                      | 18,630  | 442,463    |
|  |         |            | NYMAGIC                                   | 67,900  | 1,861,818  |
| <b>Total (Cost \$14,988,862)</b>               |         | 22,724,328 | Navigators Group <sup>a,c</sup>           | 37,200  | 1,148,364  |
|  |         |            | <b>PICO Holdings <sup>a</sup></b>         | 145,100 | 2,273,717  |
| <b>Consumer Services</b> $\square$ <b>5.1%</b> |         |            | PMA Capital Cl. A <sup>c</sup>            | 80,000  | 409,600    |
| Direct Marketing - 0.1%                        |         |            | PXRE Group                                | 73,164  | 1,724,475  |
| ValueVision Media Cl. A <sup>a,c</sup>         | 5,000   | 83,500     | ProAssurance Corporation <sup>a,c</sup>   | 48,800  | 1,568,920  |
|  |         |            | Wellington Underwriting                   | 444,712 | 615,221    |
| Leisure/Entertainment - 0.2%                   |         |            | Zenith National Insurance                 | 19,100  | 621,705    |
| IMAX Corporation <sup>a,c</sup>                | 25,000  | 197,750    |   |         |            |
| Singing Machine Company (The) <sup>a,c</sup>   | 118,000 | 282,020    |   |         | 11,440,221 |
| TiVo <sup>a,c</sup>                            | 20,000  | 148,000    |   |         |            |
|  |         | 627,770    | <b>Total (Cost \$10,718,653)</b>          |         | 15,441,455 |

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## ROYCE MICRO-CAP TRUST, INC.

### SCHEDULE OF INVESTMENTS

DECEMBER 31, 2003

|   | SHARES | VALUE      |  | SHARES  | VALUE      |
|---|--------|------------|--|---------|------------|
| <b>Financial Services</b> $\square$ <b>1.0%</b> |        |            | Exactech <sup>a</sup>                    | 63,000  | \$ 929,250 |
| Insurance Brokers - 0.4%                        |        |            | Interpore International <sup>a,c</sup>   | 22,600  | 293,800    |
| Clark <sup>a,c</sup>                            | 20,900 | \$ 402,116 | Medical Action Industries <sup>a,c</sup> | 43,500  | 813,885    |
| CorVel Corporation <sup>a,c</sup>               | 18,750 | 705,000    | Molecular Devices <sup>a</sup>           | 25,500  | 484,245    |
|   |        | 1,107,116  | NMT Medical <sup>a</sup>                 | 44,000  | 198,000    |
|   |        |            | Orthofix International <sup>a,c</sup>    | 29,500  | 1,444,910  |
|   |        |            | Osteotech <sup>a</sup>                   | 22,100  | 194,480    |
| Other Financial Services -                      |        |            | PLC Systems <sup>a</sup>                 | 105,200 | 122,032    |
| 0.6%  |        |            |  |         |            |

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|   |         |                  |   |         |                   |
|---|---------|------------------|---|---------|-------------------|
| MicroFinancial <sup>a</sup>               | 10,000  | 29,000           | Utah Medical Products <sup>a</sup>      | 42,300  | 1,096,416         |
| PRG-Schultz International <sup>a,c</sup>  | 305,000 | 1,494,500        |   |         |                   |
|   |         |                  |   |         | <hr/>             |
|   |         | 1,523,500        |   |         | 7,675,748         |
|   |         |                  |   |         | <hr/>             |
| <b>Total (Cost \$2,163,397)</b>           |         | <b>2,630,616</b> | <b>Total (Cost \$18,685,321)</b>        |         | <b>28,155,060</b> |
|   |         |                  |   |         | <hr/>             |
|   |         |                  | <b>Industrial Products <sup>□</sup></b> |         |                   |
|   |         |                  | <b>14.8%</b>                            |         |                   |
| <b>Health <sup>□</sup> 11.1%</b>          |         |                  | Automotive - 0.6%                       |         |                   |
| Commercial Services - 3.7%                |         |                  | Spartan Motors                          | 40,800  | 412,080           |
| BioReliance Corporation <sup>a</sup>      | 35,300  | 1,688,046        | Wecast Industries Cl. A                 | 37,900  | 1,118,050         |
| Bruker BioSciences <sup>a</sup>           | 200,300 | 911,365          |   |         | <hr/>             |
| First Consulting Group <sup>a</sup>       | 254,700 | 1,433,961        |   |         | 1,530,130         |
| ICON ADR <sup>a,b</sup>                   | 800     | 34,880           |   |         | <hr/>             |
| PAREXEL International <sup>a,c</sup>      | 121,400 | 1,973,964        | Building Systems and Components - 2.0%  |         |                   |
| The TriZetto Group <sup>a,c</sup>         | 181,500 | 1,170,675        | Drew Industries <sup>a</sup>            | 15,000  | 417,000           |
| <b>Young Innovations</b>                  | 61,450  | 2,212,200        | <b>Juno Lighting</b> <sup>a</sup>       | 121,600 | 2,736,000         |
|   |         |                  | LSI Industries                          | 67,812  | 915,462           |
|   |         | 9,425,091        | Skyline Corporation                     | 32,100  | 1,119,327         |
|   |         |                  |   |         | <hr/>             |
| Drugs and Biotech - 1.9%                  |         |                  |   |         | 5,187,789         |
| Antigenics <sup>a,c</sup>                 | 60,800  | 688,256          | Construction Materials - 1.8%           |         |                   |
| Arena Pharmaceuticals <sup>a,c</sup>      | 14,000  | 86,800           | Ash Grove Cement Company                | 8,000   | 944,000           |
| BioSource International <sup>a</sup>      | 177,900 | 1,204,383        | Florida Rock Industries                 | 25,000  | 1,371,250         |
| DUSA Pharmaceuticals <sup>a</sup>         | 20,000  | 101,000          | Monarch Cement                          | 50,410  | 958,294           |
| Emisphere Technologies <sup>a,c</sup>     | 187,200 | 1,025,856        | Synalloy Corporation <sup>a</sup>       | 171,000 | 1,183,320         |
| Geron Corporation <sup>a,c</sup>          | 6,000   | 59,820           |   |         | <hr/>             |
| Myriad Genetics <sup>a,c</sup>            | 55,000  | 707,300          |   |         | 4,456,864         |
| Nabi Biopharmaceuticals <sup>a</sup>      | 5,000   | 63,550           |   |         | <hr/>             |
| Sangamo BioSciences <sup>a</sup>          | 10,000  | 55,400           | Industrial Components - 2.7%            |         |                   |
| VIVUS <sup>a</sup>                        | 167,200 | 633,688          | Aaon <sup>a</sup>                       | 47,500  | 921,975           |
|   |         | 4,626,053        | Bel Fuse Cl. A                          | 52,600  | 1,572,740         |
|   |         |                  | Penn Engineering & Manufacturing        | 56,600  | 1,077,098         |
|   |         |                  | Penn Engineering & Manufacturing Cl. A  | 30,800  | 520,520           |
| Health Services - 1.5%                    |         |                  | Planar Systems <sup>a,c</sup>           | 10,000  | 243,200           |
| ATC Healthcare Cl. A <sup>a</sup>         | 35,000  | 21,000           | Powell Industries <sup>a</sup>          | 85,800  | 1,643,070         |
| aaiPharma <sup>a,c</sup>                  | 31,600  | 793,792          | Scientific Technologies <sup>a</sup>    | 10,700  | 49,776            |
| Covalent Group <sup>a</sup>               | 25,000  | 63,775           | Tech/Ops Sevcon                         | 76,200  | 417,576           |
| MIM Corporation <sup>a,c</sup>            | 68,100  | 478,743          | II-VI <sup>a</sup>                      | 10,000  | 258,000           |
| MedCath Corporation <sup>a,c</sup>        | 18,000  | 188,280          | Woodhead Industries <sup>c</sup>        | 10,000  | 169,000           |
| Quovadx <sup>a</sup>                      | 65,000  | 318,500          |   |         | <hr/>             |
| RehabCare Group <sup>a,c</sup>            | 25,000  | 531,500          |   |         | 6,872,955         |
| SFBC International <sup>a,c</sup>         | 10,000  | 265,600          |   |         | <hr/>             |
| Sierra Health Services <sup>a,c</sup>     | 40,000  | 1,098,000        |   |         |                   |
| Superior Consultant Holdings <sup>a</sup> | 10,000  | 41,300           | Machinery - 0.8%                        |         |                   |
|   |         | 3,800,490        | Astec Industries <sup>a</sup>           | 40,200  | 493,254           |
|   |         |                  | Cascade Corporation                     | 5,000   | 111,500           |
| Personal Care - 1.0%                      |         |                  | Hurco Companies <sup>a</sup>            | 16,100  | 86,135            |
| Complex Technologies <sup>a,c</sup>       | 47,000  | 392,920          | LeCroy Corporation <sup>a,c</sup>       | 14,000  | 252,140           |
| Helen of Troy <sup>a,c</sup>              | 20,000  | 463,000          | Lindsay Manufacturing <sup>c</sup>      | 10,000  | 252,500           |
| Lifeline Systems <sup>a</sup>             | 18,000  | 342,000          | MTS Systems                             | 10,000  | 192,300           |
|   |         |                  | Mueller (Paul) Company                  | 13,650  | 542,041           |

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|   |         |                  |                                    |                   |
|---|---------|------------------|------------------------------------|-------------------|
| Ocular Sciences <sup>a,c</sup>          | 49,800  | 1,429,758        |                                    |                   |
|   |         | <u>2,627,678</u> |                                    | <u>1,929,870</u>  |
| Surgical Products and Devices - 3.0%    |         |                  | Paper and Packaging - 0.1%         |                   |
| Aksys <sup>a,c</sup>                    | 76,000  | 671,080          | Mod-Pac Corporation <sup>a,c</sup> | 23,200 185,368    |
| Allied Healthcare Products <sup>a</sup> | 258,400 | 994,840          | Pumps, Valves and Bearings - 1.5%  |                   |
|   |         |                  | <b>Denison International ADR</b>   |                   |
| Cantel Medical <sup>a</sup>             | 21,000  | 339,990          | <sup>a,b</sup>                     | 113,500 2,712,650 |
| CONMED Corporation <sup>a,c</sup>       | 3,900   | 92,820           | Sun Hydraulics                     | 152,550 1,096,835 |
|   |         |                  |                                    | <u>3,809,485</u>  |

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**ROYCE MICRO-CAP TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**DECEMBER 31, 2003**

|   | SHARES  | VALUE            |  | SHARES  | VALUE            |
|---|---------|------------------|--|---------|------------------|
| <b>Industrial Products (continued)</b>              |         |                  |  |         |                  |
| Specialty Chemicals and Materials - 2.6%            |         |                  | Engineering and Construction - 0.8%    |         |                  |
| <b>Aceto</b>  | 87,631  | \$ 2,238,096     | Comfort Systems USA <sup>a</sup>       | 122,200 | \$ 669,656       |
| American Pacific                                    | 36,000  | 345,600          | Devcon International <sup>a</sup>      | 21,700  | 151,900          |
| Balchem Corporation                                 | 10,000  | 228,000          | Insituform Technologies Cl. A          |         |                  |
| CFC International <sup>a</sup>                      | 144,700 | 766,910          | <sup>a,c</sup>                         | 70,000  | 1,155,000        |
| Eastern Company (The)                               | 54,627  | 854,366          | Keith Companies <sup>a</sup>           | 10,000  | 136,200          |
| Hawkins   | 122,667 | 1,712,431        |  |         | <u>2,112,756</u> |
| NuCo2 <sup>a,c</sup>                                | 20,000  | 253,400          | Food/Tobacco Processors - 1.2%         |         |                  |
| Park Electrochemical                                | 10,000  | 264,900          | Galaxy Nutritional Foods <sup>a</sup>  | 108,500 | 272,335          |
|   |         | <u>6,663,703</u> | ML Macadamia Orchards LP Cl. A         | 120,200 | 438,730          |
|   |         |                  | <b>Seneca Foods Cl. A</b> <sup>a</sup> | 62,500  | 1,343,750        |
|   |         |                  | <b>Seneca Foods Cl. B</b> <sup>a</sup> | 42,500  | 935,000          |
| Steel/Metal Fabrication & Distribution - 0.9%       |         |                  |  |         | <u>2,989,815</u> |
| Encore Wire <sup>a</sup>                            | 10,000  | 177,100          | Industrial Distribution - 0.8%         |         |                  |
| Metals USA <sup>a</sup>                             | 60,000  | 604,200          | Central Steel & Wire                   | 1,200   | 474,000          |
| NN  | 112,300 | 1,413,857        | Elamex <sup>a</sup>                    | 70,200  | 175,500          |
| Universal Stainless & Alloy Products <sup>a,c</sup> | 7,700   | 83,160           | Lawson Products                        | 16,200  | 537,516          |
|   |         | <u>2,278,317</u> | Strategic Distribution                 | 59,690  | 836,257          |

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|   |         |                   |  |  |                   |
|---|---------|-------------------|--|--|-------------------|
| Textiles - 0.1%                                   |         |                   |  |  |                   |
| Fab Industries <sup>a</sup>                       | 56,400  | 296,100           |  |  | 2,023,273         |
| Other Industrial Products - 1.7%                  |         |                   |  |  |                   |
| <b>BHA Group Holdings</b>                         | 96,915  | 2,437,412         |  |  |                   |
| Maxwell Technologies <sup>a,c</sup>               | 15,300  | 108,630           |  |  |                   |
| Myers Industries                                  | 29,342  | 355,625           |  |  |                   |
| Peerless Mfg. <sup>a</sup>                        | 43,200  | 557,280           |  |  |                   |
| Quixote Corporation                               | 36,000  | 878,760           |  |  |                   |
|   |         |                   |  |  | 2,801,721         |
|   |         | 4,337,707         |  |  |                   |
| <b>Total (Cost \$23,301,321)</b>                  |         | <b>37,548,288</b> |  |  |                   |
| <b>Industrial Services</b> $\square$ <b>14.1%</b> |         |                   |  |  |                   |
| Advertising/Publishing - 0.8%                     |         |                   |  |  |                   |
| FindWhat.com <sup>a,c</sup>                       | 10,000  | 187,500           |  |  |                   |
| Modem Media Cl. A <sup>a</sup>                    | 141,200 | 1,153,604         |  |  |                   |
| NetRatings <sup>a</sup>                           | 50,000  | 571,500           |  |  |                   |
|   |         | 1,912,604         |  |  | 5,436,696         |
| Commercial Services - 6.7%                        |         |                   |  |  |                   |
| APAC Customer Services <sup>a,c</sup>             | 139,900 | 363,740           |  |  |                   |
| Administaff <sup>a,c</sup>                        | 10,000  | 173,800           |  |  |                   |
| American Bank Note Holographics <sup>a</sup>      | 267,200 | 408,816           |  |  | 1,438,044         |
| Bennett Environmental <sup>a,c</sup>              | 10,000  | 206,600           |  |  |                   |
| Butler International <sup>a</sup>                 | 38,500  | 58,135            |  |  |                   |
| <b>Carlisle Holdings</b> <sup>a</sup>             | 390,000 | 2,398,500         |  |  |                   |
| Edgewater Technology <sup>a</sup>                 | 18,339  | 89,128            |  |  |                   |
| Exponent <sup>a</sup>                             | 67,900  | 1,453,060         |  |  |                   |
| <b>iGATE Corporation</b> <sup>a</sup>             | 299,700 | 2,352,645         |  |  |                   |
| Innodata Isogen <sup>a</sup>                      | 125,000 | 500,000           |  |  |                   |
| Kforce <sup>a</sup>                               | 55,000  | 513,700           |  |  |                   |
| Manufacturers Services <sup>a,c</sup>             | 139,000 | 845,120           |  |  |                   |
| NCO Group <sup>a,c</sup>                          | 20,000  | 455,400           |  |  |                   |
| NIC <sup>a,c</sup>                                | 26,800  | 215,204           |  |  |                   |
| New Horizons Worldwide <sup>a</sup>               | 141,000 | 802,149           |  |  |                   |
| Pegasystems <sup>a</sup>                          | 165,500 | 1,426,610         |  |  |                   |
| Pemstar <sup>a,c</sup>                            | 96,500  | 317,485           |  |  |                   |
| RemedyTemp Cl. A <sup>a</sup>                     | 98,200  | 1,071,362         |  |  |                   |
| TRC Companies <sup>a,c</sup>                      | 17,400  | 366,444           |  |  |                   |
| Volt Information Sciences <sup>a</sup>            | 36,600  | 827,160           |  |  |                   |
| Wackenhut Corrections <sup>a</sup>                | 54,200  | 1,235,760         |  |  |                   |
| Westaff <sup>a</sup>                              | 362,500 | 848,250           |  |  |                   |
|   |         | 16,929,068        |  |  |                   |
| Transportation and Logistics - 2.1%               |         |                   |  |  |                   |
| AirNet Systems <sup>a</sup>                       |         | 196,000           |  |  | 738,920           |
| Forward Air <sup>a</sup>                          |         | 43,800            |  |  | 1,204,500         |
| Frozen Food Express Industries <sup>a</sup>       |         | 213,500           |  |  | 1,417,640         |
| Hub Group Cl. A <sup>a</sup>                      |         | 6,500             |  |  | 140,010           |
| Knight Transportation <sup>a,c</sup>              |         | 38,925            |  |  | 998,426           |
| Patriot Transportation Holding <sup>a</sup>       |         | 28,400            |  |  | 937,200           |
|   |         |                   |  |  | 5,436,696         |
| Other Industrial Services - 0.6%                  |         |                   |  |  |                   |
| Landauer Team <sup>a</sup>                        |         | 21,300            |  |  | 868,614           |
|   |         | 55,500            |  |  | 569,430           |
| <b>Total (Cost \$22,497,759)</b>                  |         |                   |  |  | <b>35,643,977</b> |
| <b>Natural Resources</b> $\square$ <b>9.1%</b>    |         |                   |  |  |                   |
| Energy Services - 3.4%                            |         |                   |  |  |                   |
| Carbo Ceramics                                    |         | 33,600            |  |  | 1,722,000         |
| Core Laboratories <sup>a</sup>                    |         | 24,000            |  |  | 400,560           |
| Dril-Quip <sup>a</sup>                            |         | 66,500            |  |  | 1,083,950         |
| GulfMark Offshore <sup>a</sup>                    |         | 69,200            |  |  | 968,800           |
| Input/Output <sup>a,c</sup>                       |         | 168,500           |  |  | 759,935           |
| Lufkin Industries                                 |         | 34,800            |  |  | 1,001,892         |
| NATCO Group Cl. A <sup>a</sup>                    |         | 100,400           |  |  | 762,036           |
| Valley National Gases <sup>a</sup>                |         | 30,100            |  |  | 210,700           |
| Veritas DGC <sup>a</sup>                          |         | 93,400            |  |  | 978,832           |
| Willbros Group <sup>a</sup>                       |         | 55,900            |  |  | 671,918           |
|   |         |                   |  |  | 8,560,623         |
| Oil and Gas - 3.1%                                |         |                   |  |  |                   |
| <b>Bonavista Energy Trust</b>                     |         | 142,000           |  |  | 2,306,326         |
| Contango Oil & Gas Company <sup>a</sup>           |         | 50,000            |  |  | 349,500           |
| Denbury Resources <sup>a</sup>                    |         | 73,800            |  |  | 1,026,558         |
| Evergreen Resources <sup>a,c</sup>                |         | 35,000            |  |  | 1,137,850         |
| Novista Energy <sup>a</sup>                       |         | 121,000           |  |  | 744,342           |

## ROYCE MICRO-CAP TRUST, INC.

## SCHEDULE OF INVESTMENTS

DECEMBER 31, 2003

|  | SHARES  | VALUE        |  | SHARES  | VALUE      |
|--|---------|--------------|--|---------|------------|
| <b>Natural Resources (continued)</b>             |         |              |  |         |            |
| Oil and Gas (continued)                          |         |              | Jaco Electronics <sup>a</sup>            | 38,000  | \$ 261,820 |
| PetroCorp <sup>a</sup>                           | 104,200 | \$ 1,402,532 | Nu Horizons Electronics <sup>a,c</sup>   | 40,000  | 392,000    |
| Prima Energy <sup>a</sup>                        | 21,000  | 738,360      | Pomeroy IT Solutions                     | 33,000  | 486,420    |
| Toreador Resources <sup>a</sup>                  | 30,000  | 139,500      | <b>Richardson Electronics</b>            | 206,600 | 2,539,114  |
|  |         |              |  |         |            |
|  |         |              |  |         | 4,905,674  |
|  |         | 7,844,968    |  |         |            |
|  |         |              | Internet Software and Services -         |         |            |
|  |         |              | 0.8%                                     |         |            |
| Precious Metals and Mining - 1.1%                |         |              | Keynote Systems <sup>a</sup>             | 5,000   | 59,500     |
| Apex Silver Mines <sup>a</sup>                   | 79,600  | 1,663,640    | Lionbridge Technologies <sup>a,c</sup>   | 37,500  | 360,375    |
| Brush Engineered Materials <sup>a,c</sup>        | 15,500  | 237,305      | LookSmart <sup>a,c</sup>                 | 20,000  | 31,000     |
| MK Gold <sup>a</sup>                             | 603,700 | 917,624      | Overstock.com <sup>a,c</sup>             | 14,500  | 287,970    |
|  |         |              | RealNetworks <sup>a,c</sup>              | 65,700  | 375,147    |
|  |         | 2,818,569    | Register.com <sup>a</sup>                | 41,857  | 219,749    |
|  |         |              | Stamps.com <sup>a</sup>                  | 111,000 | 688,200    |
|  |         |              |  |         | 2,021,941  |
| Real Estate - 1.5%                               |         |              |  |         |            |
| HomeFed Corporation <sup>a</sup>                 | 69,352  | 2,011,208    |  |         |            |
| Liberte Investors <sup>a,c</sup>                 | 247,700 | 1,748,762    |  |         |            |
| Stratus Properties <sup>a</sup>                  | 11,000  | 110,220      | IT Services - 6.1%                       |         |            |
|  |         |              | CIBER <sup>a</sup>                       | 205,000 | 1,775,300  |
|  |         | 3,870,190    | Computer Task Group <sup>a</sup>         | 341,100 | 1,326,879  |
|  |         |              | <b>Covansys Corporation <sup>a</sup></b> | 265,500 | 2,920,500  |
| <b>Total (Cost \$11,038,470)</b>                 |         | 23,094,350   | DiamondCluster International Cl.         |         |            |
|  |         |              | A <sup>a,c</sup>                         | 168,100 | 1,714,620  |
|  |         |              | DynTek Cl. A <sup>a,c</sup>              | 199,000 | 143,280    |
| <b>Technology □ 26.7%</b>                        |         |              | Forrester Research <sup>a</sup>          | 105,500 | 1,885,285  |
| Aerospace/Defense - 2.9%                         |         |              | <b>Sapient Corporation <sup>a</sup></b>  | 685,000 | 3,836,000  |
| Astronics Corporation <sup>a</sup>               | 83,800  | 419,000      | SCB Computer Technology <sup>a</sup>     | 50,000  | 103,000    |
| CPI Aerostructures <sup>a</sup>                  | 56,000  | 666,400      | Syntel                                   | 56,800  | 1,403,528  |
| <b>Ducommun <sup>a</sup></b>                     | 99,500  | 2,223,825    | Technology Solutions <sup>a</sup>        | 50,000  | 62,550     |
| Fairchild Corporation (The) Cl. A <sup>a,c</sup> | 57,500  | 289,800      | Tier Technologies Cl. B <sup>a</sup>     | 33,500  | 273,695    |
| HEICO Corporation                                | 66,600  | 1,212,120    | Tyler Technologies <sup>a</sup>          | 15,000  | 144,450    |
| Herley Industries <sup>a</sup>                   | 81,000  | 1,676,700    |  |         | 15,589,087 |
| Kaman Corporation Cl. A                          | 22,500  | 286,425      |  |         |            |
| MAIR Holdings <sup>a,c</sup>                     | 51,600  | 375,648      |  |         |            |
| SIFCO Industries <sup>a</sup>                    | 45,800  | 191,902      | Semiconductors and Equipment -           |         |            |
|  |         |              | 1.8%                                     |         |            |
|  |         | 7,341,820    | August Technology <sup>a</sup>           | 2,000   | 37,100     |
|  |         |              | Exar Corporation <sup>a</sup>            | 68,500  | 1,169,980  |



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|   |        |             |   |                       |
|---|--------|-------------|---|-----------------------|
| Computer Network Technology <sup>a,c</sup>        | 20,000 | 190,800     |   |                       |
| Giga-tronics <sup>a</sup>                         | 3,200  | 6,400       |   |                       |
| ITXC Corporation <sup>a,c</sup>                   | 36,000 | 155,520     |   |                       |
| Interland <sup>a</sup>                            | 2,500  | 16,325      |   |                       |
| MetaSolv <sup>a,c</sup>                           | 44,100 | 107,163     |   |                       |
| Optical Communication Products Cl. A <sup>a</sup> | 45,000 | 166,500     |   |                       |
| PC-Tel <sup>a</sup>                               | 31,100 | 329,971     |   |                       |
|   |        |             | <b>REPURCHASE AGREEMENT</b>               |                       |
|   |        |             | □ <b>23.9%</b>                            |                       |
|   |        |             | State Street Bank                         |                       |
|   |        |             | & Trust Company,                          |                       |
|   |        |             | 0.30% dated                               |                       |
|   |        |             | 12/31/03, due                             |                       |
|   |        |             | 1/2/04, maturity                          |                       |
|   |        |             | value \$60,601,010                        |                       |
|   |        |             | (collateralized by                        |                       |
|   |        |             | U.S. Treasury                             |                       |
|   |        |             | Notes,                                    |                       |
|   |        |             | 1.625%-2.125%                             |                       |
|   |        |             | due                                       |                       |
|   |        |             | 8/31/04-3/31/05,                          |                       |
|   |        |             | valued at                                 |                       |
|   |        |             | \$61,823,172) (Cost                       |                       |
|   |        |             | \$60,600,000)                             |                       |
| Radyne ComStream <sup>a</sup>                     | 21,400 | 178,069     |   | 60,600,000            |
| SpectraLink Corporation                           | 57,000 | 1,092,690   |   |                       |
|   |        |             | <b>COLLATERAL RECEIVED FOR SECURITIES</b> |                       |
|   |        |             | <b>LOANED □ 8.4%</b>                      |                       |
| Tollgrade Communications <sup>a,c</sup>           | 20,000 | 350,600     |   |                       |
| ViaSat <sup>a</sup>                               | 98,200 | 1,879,548   |   |                       |
|   |        |             | U.S. Treasury                             |                       |
|   |        |             | Bonds                                     |                       |
|   |        |             | 5.50%-14.00% due                          |                       |
|   |        |             | 11/15/09-8/15/28                          | 82,914                |
|   |        |             | U.S. Treasury                             |                       |
|   |        |             | Notes                                     |                       |
|   |        |             | 3.00%-6.625% due                          |                       |
|   |        |             | 2/29/04-7/15/12                           | 110,738               |
|   |        |             | U.S. Treasury                             |                       |
|   |        |             | Strip-Principal                           |                       |
|   |        |             | 9.125% due                                |                       |
|   |        |             | 5/15/18                                   | 22,810                |
|   |        |             | Money Market                              |                       |
|   |        |             | Funds                                     |                       |
|   |        |             | State Street Navigator                    |                       |
|   |        |             | Securities Lending                        |                       |
|   |        |             | Prime Portfolio                           | 20,960,303            |
| <b>Total</b> (Cost \$39,558,379)                  |        | 67,753,352  |   |                       |
|   |        |             | <b>Total</b> (Cost                        |                       |
|   |        |             | \$21,176,765)                             | 21,176,765            |
|   |        |             | <b>TOTAL INVESTMENTS □</b>                |                       |
|   |        |             | <b>137.2%</b>                             |                       |
|   |        |             | (Cost                                     |                       |
|   |        |             | \$252,761,270)                            | 347,759,017           |
| Miscellaneous □ <b>5.0%</b>                       |        |             |   |                       |
| <b>Total</b> (Cost \$11,773,456)                  |        | 12,553,169  |   |                       |
|   |        |             | <b>LIABILITIES LESS</b>                   |                       |
|   |        |             | <b>CASH AND</b>                           |                       |
|   |        |             | <b>OTHER ASSETS □</b>                     |                       |
|   |        |             | <b>(13.5)%</b>                            | (34,333,965)          |
| <b>TOTAL COMMON STOCKS</b>                        |        |             | <b>PREFERRED</b>                          |                       |
|   |        |             | <b>STOCK □ (23.7)%</b>                    | (60,000,000)          |
| (Cost \$165,020,025)                              |        | 259,556,120 |   |                       |
|   |        |             | <b>NET ASSETS</b>                         |                       |
|   |        |             | <b>APPLICABLE TO</b>                      |                       |
|   |        |             | <b>COMMON STOCKHOLDERS</b>                |                       |
|   |        |             | □ <b>100.0%</b>                           | <b>\$ 253,425,052</b> |
| <b>PREFERRED STOCKS □ 0.5%</b>                    |        |             |   |                       |
| Angelo and Maxie's 10.00% Conv.                   | 6,991  | 17,827      |   |                       |
| Seneca Foods Conv. <sup>a</sup>                   | 75,409 | 1,379,985   |   |                       |
| <b>TOTAL PREFERRED STOCKS</b>                     |        |             |   |                       |
| (Cost \$957,998)                                  |        | 1,397,812   |   |                       |

- a Non-income producing.  
 b American Depository Receipt.  
 c A portion of these securities were on loan at December 31, 2003. Total market value of loaned securities at December 31, 2003 was \$20,392,479.  
 d Securities for which market quotations are no longer readily available represent 0.99% of net assets. These securities have been valued at their fair value under procedures established by the Fund's Board of Directors.  
 □ New additions in 2003.

**Bold indicates the Fund's largest 20 equity holdings in terms of December 31, 2003 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$253,607,180. At December 31, 2003, net unrealized appreciation for all securities was \$94,151,837, consisting of aggregate gross unrealized appreciation of \$99,902,417 and aggregate gross unrealized depreciation of \$5,750,580. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and amortization of discount for book and tax purposes.

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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## ROYCE MICRO-CAP TRUST, INC.

### STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 2003

#### ASSETS:

|   |                |
|---|----------------|
| Investments at value (cost \$192,161,270) - including \$21,176,765 of collateral on loaned securities | \$ 287,159,017 |
| Repurchase agreement (at cost and value)  | 60,600,000     |
| Cash  | 2,738,816      |
| Receivable for investments sold   | 217,109        |
| Receivable for dividends and interest   | 137,093        |
| Prepaid expenses  | 5,793          |

|              |             |
|--------------|-------------|
| Total Assets | 350,857,828 |
|--------------|-------------|

#### LIABILITIES:

|  |            |
|--|------------|
| Payable for collateral on loaned securities      | 21,176,765 |
| Payable for investments purchased                | 15,789,784 |
| Payable for investment advisory fee              | 293,489    |
| Preferred dividends accrued but not yet declared | 80,000     |
| Accrued expenses                                 | 92,738     |

|                   |            |
|-------------------|------------|
| Total Liabilities | 37,432,776 |
|-------------------|------------|

#### PREFERRED STOCK:

|   |            |
|---|------------|
| 6.00% Cumulative Preferred Stock - \$0.001 par value, \$25 liquidation value per share;<br>2,400,000 shares outstanding | 60,000,000 |
|---|------------|

|                       |            |
|-----------------------|------------|
| Total Preferred Stock | 60,000,000 |
|-----------------------|------------|

|   |                       |
|---|-----------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 253,425,052</b> |
|---|-----------------------|

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|  |                       |
|--|-----------------------|
| Common Stock paid-in capital - \$0.001 par value per share; 19,015,340 shares outstanding<br>(150,000,000 shares authorized) | \$ 145,700,538        |
| Accumulated net investment income  | 3,449,948             |
| Accumulated net realized gain on investments   | 9,356,819             |
| Net unrealized appreciation on investments   | 94,997,747            |
| Preferred dividends accrued but not yet declared   | (80,000)              |
| <b>Net Assets applicable to Common Stockholders (net asset value per share - \$13.33)</b>                                    | <b>\$ 253,425,052</b> |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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**ROYCE MICRO-CAP TRUST, INC.****STATEMENT OF OPERATIONS****YEAR ENDED DECEMBER 31,  
2003****INVESTMENT INCOME:**

|  |                    |
|--|--------------------|
| Income:  |                    |
| Dividends  | \$ 1,802,298       |
| Interest   | 151,415            |
| Securities lending                                   | 40,100             |
| <b>Total income</b>                                  | <b>1,993,813</b>   |
| Expenses:  |                    |
| Investment advisory fees                             | 3,371,509          |
| Custody and transfer agent fees                      | 131,792            |
| Stockholder reports                                  | 99,634             |
| Professional fees                                    | 78,392             |
| Directors' fees                                      | 50,179             |
| Administrative and office facilities expenses        | 32,106             |
| Other expenses                                       | 73,364             |
| <b>Total expenses</b>                                | <b>3,836,976</b>   |
| Fees waived by investment advisor                    | (200,000)          |
| <b>Net expenses</b>                                  | <b>3,636,976</b>   |
| <b>Net investment loss</b>                           | <b>(1,643,163)</b> |
| <b>REALIZED AND UNREALIZED GAIN ON INVESTMENTS:</b>  |                    |
| Net realized gain on investments                     | 30,865,842         |
| Net change in unrealized appreciation on investments | 67,143,086         |

|  |                      |
|--|----------------------|
| Net realized and unrealized gain on investments  | 98,008,928           |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>96,365,765</b>    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>   | <b>(3,247,215)</b>   |
| <b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$ 93,118,550</b> |

### STATEMENTS OF CHANGES IN NET ASSETS

|   | Year ended<br>December 31,<br>2003 | Year ended<br>December 31,<br>2002 |
|---|------------------------------------|------------------------------------|
| <b>INVESTMENT OPERATIONS:</b>   |                                    |                                    |
| Net investment loss   | \$ (1,643,163)                     | \$ (2,363,582)                     |
| Net realized gain on investments  | 30,865,842                         | 16,747,557                         |
| Net change in unrealized appreciation on investments  | 67,143,086                         | (38,936,315)                       |
| Net increase (decrease) in net assets resulting from investment operations  | 96,365,765                         | (24,552,340)                       |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                                    |                                    |
| Net realized gain on investments  | (3,236,104)                        | (3,100,000)                        |
| Quarterly distributions accrued but not yet declared  | (11,111)                           | □                                  |
| Total distributions to Preferred Stockholders   | (3,247,215)                        | (3,100,000)                        |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>93,118,550</b>                  | <b>(27,652,340)</b>                |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                                    |                                    |
| Net realized gain on investments  | (16,874,985)                       | (13,769,198)                       |
| Total distributions to Common Stockholders  | (16,874,985)                       | (13,769,198)                       |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                                    |                                    |
| Offering costs from issuance of Preferred Stock   | (2,097,350)                        | □                                  |
| Reinvestment of distributions to Common Stockholders  | 11,707,658                         | 8,549,592                          |
| Total capital stock transactions  | 9,610,308                          | 8,549,592                          |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>                                      | <b>85,853,873</b>                  | <b>(32,871,946)</b>                |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |                                    |                                    |
| Beginning of year   | 167,571,179                        | 200,443,125                        |
| End of year (including net investment income of \$3,449,948 in 2003)  | \$ 253,425,052                     | \$ 167,571,179                     |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

**ROYCE MICRO-CAP TRUST, INC.****FINANCIAL HIGHLIGHTS**

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

Years ended December 31,

|   | 2003    | 2002    | 2001    | 2000    | 1999    |
|---|---------|---------|---------|---------|---------|
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>   | \$9.39  | \$11.83 | \$10.14 | \$11.00 | \$10.06 |
| <b>INVESTMENT OPERATIONS:</b>   |         |         |         |         |         |
| Net investment income (loss)  | (0.09)  | (0.13)  | (0.05)  | 0.09    | 0.12    |
| Net realized and unrealized gain (loss) on investments  | 5.28    | (1.29)  | 2.57    | 1.23    | 1.35    |
| Total investment operations   | 5.19    | (1.42)  | 2.52    | 1.32    | 1.47    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |         |         |         |         |         |
| Net investment income   | □       | □       | □       | (0.01)  | (0.05)  |
| Net realized gain on investments  | (0.18)  | (0.18)  | (0.19)  | (0.22)  | (0.18)  |
| Total distributions to Preferred Stockholders   | (0.18)  | (0.18)  | (0.19)  | (0.23)  | (0.23)  |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | 5.01    | (1.60)  | 2.33    | 1.09    | 1.24    |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |         |         |         |         |         |
| Net investment income   | □       | □       | □       | (0.09)  | (0.06)  |
| Net realized gain on investments  | (0.92)  | (0.80)  | (0.57)  | (1.63)  | (0.21)  |
| Total distributions to Common Stockholders  | (0.92)  | (0.80)  | (0.57)  | (1.72)  | (0.27)  |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |         |         |         |         |         |
| Effect of Preferred Stock Offering  | (0.11)  | □       | □       | □       | □       |
| Effect of reinvestment of distributions by Common Stockholders  | (0.04)  | (0.04)  | (0.07)  | (0.23)  | (0.03)  |
| Total capital stock transactions  | (0.15)  | (0.04)  | (0.07)  | (0.23)  | (0.03)  |
| <b>NET ASSET VALUE, END OF PERIOD</b>   | \$13.33 | \$9.39  | \$11.83 | \$10.14 | \$11.00 |
| <b>MARKET VALUE, END OF PERIOD</b>  | \$12.60 | \$8.44  | \$10.50 | \$8.625 | \$9.00  |

**TOTAL RETURN (a):**

|                 |       |         |       |       |       |
|-----------------|-------|---------|-------|-------|-------|
| Market Value    | 63.6% | (12.7)% | 28.8% | 15.3% | 4.5%  |
| Net Asset Value | 55.6% | (13.8)% | 23.4% | 10.9% | 12.7% |

**RATIOS BASED ON AVERAGE NET ASSETS****APPLICABLE TO COMMON****STOCKHOLDERS:**

|                              |         |         |         |       |       |
|------------------------------|---------|---------|---------|-------|-------|
| Total expenses (b,c)         | 1.82%   | 1.96%   | 1.78%   | 1.32% | 1.27% |
| Management fee expense       | 1.59%   | 1.59%   | 1.57%   | 1.08% | 0.91% |
| Other operating expenses     | 0.23%   | 0.37%   | 0.21%   | 0.24% | 0.36% |
| Net investment income (loss) | (0.82)% | (1.23)% | (0.43)% | 0.74% | 1.20% |

**SUPPLEMENTAL DATA:**

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Net Assets Applicable to Common Stockholders,<br>End of Period (in thousands) | \$253,425 | \$167,571 | \$200,443 | \$163,820 | \$151,269 |
| Liquidation Value of Preferred Stock,<br>End of Period (in thousands)         | \$60,000  | \$40,000  | \$40,000  | \$40,000  | \$40,000  |
| Portfolio Turnover Rate   | 26%       | 39%       | 27%       | 49%       | 49%       |

**PREFERRED STOCK:**

|                                     |           |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Total shares outstanding            | 2,400,000 | 1,600,000 | 1,600,000 | 1,600,000 | 1,600,000 |
| Asset coverage per share            | \$130.59  | \$129.73  | \$150.28  | \$127.39  | \$119.54  |
| Liquidation preference per share    | \$25.00   | \$25.00   | \$25.00   | \$25.00   | \$25.00   |
| Average market value per share (d): |           |           |           |           |           |
| 6.00% Cumulative                    | \$25.37   | □         | □         | □         | □         |
| 7.75% Cumulative                    | \$25.70   | \$25.91   | \$25.30   | \$23.08   | \$24.67   |

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.49%, 1.62%, 1.46%, 1.06% and 0.98% for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.92%, 2.04%, 1.81% and 1.44% for the periods ended December 31, 2003, 2002, 2001 and 1999, respectively.
- (d) The average of month-end market values during the period that the preferred stock was outstanding.

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**ROYCE MICRO-CAP TRUST, INC.****NOTES TO FINANCIAL STATEMENTS****Summary of Significant Accounting Policies:**

Royce Micro-Cap Trust, Inc. (the Fund) was incorporated under the laws of the State of Maryland on September 9, 1993 as a diversified closed-end investment company. The Fund commenced operations on December 14, 1993.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of

income and expenses during the reporting period. Actual results could differ from those estimates.

**Valuation of Investments:**

Securities are valued as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange or Nasdaq are valued at their last reported sales price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their bid price. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. Bonds and other fixed income securities may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services.

**Investment Transactions and Related Investment Income:**

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and any non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

**Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated in an equitable manner. Allocated personnel and occupancy costs related to The Royce Funds are included in administrative and office facilities expenses. The Fund has adopted a deferred fee agreement that allows the Fund's Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Taxes:**

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information".

**Distributions:**

The Fund currently has a policy of paying quarterly distributions on the Fund's Common Stock. Distributions are currently being made at the annual rate of 9% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 2.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are recorded on an accrual basis and paid quarterly. The Fund is required to allocate long-term capital gain distributions and other types of income proportionately to distributions made to holders of shares of Common Stock and Preferred Stock. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax basis differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

**Repurchase Agreements:**

The Fund enters into repurchase agreements with respect to its portfolio securities solely with State Street Bank and Trust Company ("SSB&T"), the custodian of its assets. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held by SSB&T until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of SSB&T, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

**Securities Lending:**

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral on all securities loaned for the Fund is accepted in cash and is invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities.

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**ROYCE MICRO-CAP TRUST, INC.**

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**Capital Stock:**

The Fund issued 1,173,282 and 896,290 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2003 and 2002, respectively.

On October 20, 2003, the Fund redeemed all (1,600,000 shares) of its then outstanding 7.75% Cumulative Preferred Stock at the redemption price of \$25.00 per share plus accumulated and unpaid dividends through the redemption date of \$0.15069 per share. On October 16, 2003, the Fund received net proceeds of \$58,110,000 (after underwriting discounts of \$1,890,000 and before estimated offering expenses of \$207,350) from the public offering of 2,400,000 shares of 6.00% Cumulative Preferred Stock. Commencing October 16, 2008 and thereafter, the Fund, at its option, may redeem the 6.00% Cumulative Preferred Stock, in whole or in part, at the redemption price.

At December 31, 2003, 2,400,000 shares of the 6.00% Cumulative Preferred Stock were outstanding. The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to

Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Preferred Stock.

Under Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer. Subject to the guidance of the EITF, the Fund's Cumulative Preferred Stock has been reclassified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements.

**Investment Advisory Agreement:**

As compensation for its services under the Investment Advisory Agreement, Royce & Associates, LLC ("Royce") receives a fee comprised of a Basic Fee ("Basic Fee") and an adjustment to the Basic Fee based on the investment performance of the Fund in relation to the investment record of the Russell 2000.

The Basic Fee is a monthly fee equal to 1/12 of 1% (1% on an annualized basis) of the average of the Fund's month-end net assets applicable to Common Stockholders plus the liquidation value of Preferred Stock for the rolling 36-month period ending with such month. The Basic Fee for each month is increased or decreased at the rate of 1/12 of .05% for each percentage point that the investment performance of the Fund exceeds, or is exceeded by, the percentage change in the investment record of the Russell 2000 for the performance period by more than two percentage points. The performance period for each such month is a rolling 36-month period ending with such month. The maximum increase or decrease in the Basic Fee for any month may not exceed 1/12 of .5%. Accordingly, for each month, the maximum monthly fee rate as adjusted for performance is 1/12 of 1.5% and is payable if the investment performance of the Fund exceeds the percentage change in the investment record of the Russell 2000 by 12 or more percentage points for the performance period, and the minimum monthly fee rate as adjusted for performance is 1/12 of .5% and is payable if the percentage change in the investment record of the Russell 2000 exceeds the investment performance of the Fund by 12 or more percentage points for the performance period.

Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the Preferred Stock's dividend rate.

For the year ended December 31, 2003 the Fund accrued and paid Royce advisory fees totaling \$3,171,509, which is net of \$200,000 voluntarily waived by Royce.

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**ROYCE MICRO-CAP TRUST, INC.**

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**Distributions to Stockholders:**

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The tax character of distributions paid to stockholders during 2003 and 2002 was as follows:

| Distributions paid from: | 2003                 | 2002                 |
|--------------------------|----------------------|----------------------|
| Ordinary income          | \$ 3,217,774         | \$ □                 |
| Long-term capital gain   | 16,893,315           | 16,869,198           |
|                          | <u>\$ 20,111,089</u> | <u>\$ 16,869,198</u> |

As of December 31, 2003, the tax basis components of distributable earnings included in stockholders' equity were as follows:

|                                     |                       |
|-------------------------------------|-----------------------|
| Undistributed net investment income | \$ 3,449,948          |
| Undistributed long-term gain        | 10,202,729            |
| Unrealized appreciation             | 94,151,837            |
| Accrued preferred distributions     | (80,000)              |
|                                     | <u>\$ 107,724,514</u> |

For financial reporting purposes, capital accounts and distributions to shareholders are adjusted to reflect the tax character of permanent book / tax differences. For the year ended December 31, 2003, the Fund recorded the following permanent reclassifications, which relate primarily to the current net operating losses. Results of operations and net assets were not affected by these reclassifications.

| Undistributed<br>Net Investment<br>Income | Accumulated<br>Net Realized<br>Gain (Loss) | Paid-in<br>Capital |
|---|--|--------------------|
| <u>\$ 5,093,111</u>                       | <u>\$ (5,084,534 )</u>                     | <u>\$ (8,577 )</u> |

**Purchases and Sales of Investment Securities:**

For the year ended December 31, 2003, the cost of purchases and proceeds from sales of investment securities, other than short-term securities, amounted to \$59,049,805 and \$94,203,089, respectively.

**Transactions in Shares of Affiliated Companies:**

An "Affiliated Company", as defined in the Investment Company Act of 1940, is a company in which a Fund owns 5% or more of the company's outstanding voting securities. The Fund effected the following transactions in shares of such companies during the year ended December 31, 2003:

| Affiliated Company          | Market Value<br>12/31/02 | Purchases | Sales      | Realized and<br>Unrealized Gain<br>(Loss) | Dividend<br>Income | Market<br>Value<br>12/31/03 |
|-----------------------------|--------------------------|-----------|------------|---|--------------------|-----------------------------|
| Technical<br>Communications | \$ 34,812                | □         | \$ 108,304 | \$ (49,170)                               | □                  | 0                           |

**REPORT OF INDEPENDENT AUDITORS**

**To the Board of Directors and Stockholders of Royce Micro-Cap Trust, Inc.**

We have audited the accompanying statement of assets and liabilities of Royce Micro-Cap Trust, Inc., including the schedule of investments, as of December 31, 2003, and the related statement of operations for the year ended, and the statement of changes in net assets for the two years in the period then ended and the financial highlights

for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2003, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us present fairly, in all material respects, the financial position of Royce Micro-Cap Trust, Inc. at December 31, 2003, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Philadelphia, PA  
January 24, 2004

TAIT, WELLER & BAKER

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## ROYCE FOCUS TRUST, INC.

### SCHEDULE OF INVESTMENTS

DECEMBER 31, 2003

#### COMMON STOCKS □ 95.2%

|                                    | SHARES  | VALUE            |   | SHARES  | VALUE            |
|------------------------------------|---------|------------------|---|---------|------------------|
| <b>Consumer Products □ 9.6%</b>    |         |                  | <b>Industrial Products □ 10.6%</b>        |         |                  |
| Sports and Recreation - 6.3%       |         |                  | Building Systems and Components - 4.1%    |         |                  |
| Callaway Golf                      | 100,000 | \$ 1,685,000     | <b>Simpson Manufacturing</b> <sup>a</sup> | 70,000  | \$ 3,560,200     |
| Oakley                             | 75,000  | 1,038,000        | Construction Materials - 2.8%             |         |                  |
| <b>Winnebago Industries</b>        | 40,000  | 2,750,000        | <b>Florida Rock Industries</b>            | 45,000  | 2,468,250        |
|                                    |         | <u>5,473,000</u> | Machinery - 3.7%                          |         |                  |
| Other Consumer Products - 3.3%     |         |                  | <b>Lincoln Electric Holdings</b>          | 75,000  | 1,855,500        |
| Matthews International Cl. A       | 42,500  | 1,257,575        | Woodward Governor Company                 | 24,400  | 1,386,652        |
| Yankee Candle Company <sup>a</sup> | 60,000  | 1,639,800        |   |         | <u>3,242,152</u> |
|                                    |         | <u>2,897,375</u> | <b>Total (Cost \$3,876,158)</b>           |         | <u>9,270,602</u> |
| <b>Total (Cost \$5,161,556)</b>    |         | <u>8,370,375</u> |   |         |                  |
| <b>Consumer Services □ 6.3%</b>    |         |                  | <b>Industrial Services □ 7.4%</b>         |         |                  |
| Direct Marketing - 3.9%            |         |                  | Commercial Services - 5.0%                |         |                  |
| <b>Nu Skin Enterprises Cl. A</b>   | 200,000 | 3,418,000        | <b>Carlisle Holdings</b> <sup>a,c</sup>   | 350,000 | 2,152,500        |
|                                    |         |                  | Cornell Companies <sup>a</sup>            | 75,000  | 1,023,750        |

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|  |         |                   |   |         |                   |
|--|---------|-------------------|---|---------|-------------------|
|  |         |                   | West Corporation <sup>a</sup>               | 50,000  | 1,161,500         |
| Retail Stores - 2.4%                               |         |                   |   |         |                   |
| Big Lots <sup>a</sup>                              | 89,400  | 1,270,374         |   |         | 4,337,750         |
| Charming Shoppes <sup>a</sup>                      | 140,000 | 756,000           |   |         |                   |
|  |         | 2,026,374         | Engineering and Construction - 2.4%         |         |                   |
|  |         |                   | Dycom Industries <sup>a</sup>               | 80,000  | 2,145,600         |
| <b>Total (Cost \$3,217,258)</b>                    |         | <b>5,444,374</b>  | <b>Total (Cost \$2,892,439)</b>             |         | <b>6,483,350</b>  |
| <b>Financial Intermediaries <sup>□</sup> 14.2%</b> |         |                   | <b>Natural Resources <sup>□</sup> 19.3%</b> |         |                   |
| Insurance - 8.9%                                   |         |                   | Energy Services - 5.5%                      |         |                   |
| Alleghany Corporation <sup>a</sup>                 | 12,300  | 2,736,750         | Ensign Resource Service Group               | 150,000 | 2,390,993         |
| ProAssurance Corporation <sup>a</sup>              | 47,155  | 1,516,034         | Input/Output <sup>a</sup>                   | 250,000 | 1,127,500         |
| White Mountains Insurance Group <sup>c</sup>       | 4,000   | 1,839,800         | Tesco Corporation <sup>a</sup>              | 150,000 | 1,219,500         |
| Zenith National Insurance                          | 50,000  | 1,627,500         |   |         | 4,737,993         |
|  |         | 7,720,084         |   |         |                   |
| Securities Brokers - 0.7%                          |         |                   | Oil and Gas - 2.2%                          |         |                   |
| E*TRADE Financial <sup>a</sup>                     | 50,000  | 632,500           | Tom Brown <sup>a</sup>                      | 60,000  | 1,935,000         |
| Other Financial Intermediaries - 4.6%              |         |                   | Precious Metals and Mining - 11.6%          |         |                   |
| TSX Group  | 120,000 | 3,983,441         | AngloGold ADR <sup>b</sup>                  | 25,000  | 1,167,500         |
| <b>Total (Cost \$6,587,007)</b>                    |         | <b>12,336,025</b> | Glamis Gold <sup>a</sup>                    | 125,000 | 2,140,000         |
| <b>Financial Services <sup>□</sup> 4.1%</b>        |         |                   | Goldcorp                                    | 180,000 | 2,871,000         |
| Information and Processing - 2.7%                  |         |                   | Hecla Mining Company <sup>a</sup>           | 350,000 | 2,901,500         |
| eFunds Corporation <sup>a</sup>                    | 135,000 | 2,342,250         | Meridian Gold <sup>a</sup>                  | 69,800  | 1,019,778         |
| Investment Management - 1.4%                       |         |                   |   |         | 10,099,778        |
| U.S. Global Investors Cl. A <sup>a</sup>           | 295,605 | 1,247,453         | <b>Total (Cost \$11,632,734)</b>            |         | <b>16,772,771</b> |
| <b>Total (Cost \$2,386,379)</b>                    |         | <b>3,589,703</b>  | <b>Technology <sup>□</sup> 11.5%</b>        |         |                   |
| <b>Health <sup>□</sup> 12.2%</b>                   |         |                   | Distribution - 1.7%                         |         |                   |
| Commercial Services - 1.5%                         |         |                   | Richardson Electronics                      | 120,000 | 1,474,800         |
| Covance <sup>a</sup>                               | 50,000  | 1,340,000         | IT Services - 1.4%                          |         |                   |
| Drugs and Biotech - 9.0%                           |         |                   | Syntel                                      | 50,000  | 1,235,500         |
| Antigenics <sup>a,c</sup>                          | 40,300  | 456,196           | Semiconductors and Equipment - 3.2%         |         |                   |
| Emisphere Technologies <sup>a</sup>                | 100,200 | 549,096           | CEVA <sup>a</sup>                           | 183,400 | 1,907,360         |
| Endo Pharmaceuticals Holdings <sup>a</sup>         | 150,000 | 2,889,000         | Exar Corporation <sup>a</sup>               | 50,000  | 854,000           |
| Lexicon Genetics <sup>a</sup>                      | 300,000 | 1,767,000         |   |         | 2,761,360         |
| Perrigo Company                                    | 77,300  | 1,215,156         | Software - 3.4%                             |         |                   |

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|  |         |                   |  |         |                  |
|--|---------|-------------------|--|---------|------------------|
| VIVUS <sup>a</sup>                                   | 250,000 | 947,500           | PLATO Learning <sup>a</sup>                          | 116,200 | 1,225,910        |
|  |         |                   | Transaction Systems Architects<br>Cl. A <sup>a</sup> | 75,000  | 1,697,250        |
|  |         | <u>7,823,948</u>  |  |         | <u>2,923,160</u> |
| Personal Care - 1.7%<br>Ocular Sciences <sup>a</sup> | 50,000  | 1,435,500         | Telecommunication - 1.8%<br>ViaSat <sup>a</sup>      | 83,700  | 1,602,018        |
| <b>Total</b> (Cost \$7,250,260)                      |         | <u>10,599,448</u> | <b>Total</b> (Cost \$5,622,454)                      |         | <u>9,996,838</u> |

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**ROYCE FOCUS TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**DECEMBER 31, 2003**

|   | <u>PRINCIPAL<br/>AMOUNT</u> | <u>VALUE</u>         |  | <u>VALUE</u>         |
|---|-----------------------------|----------------------|--|----------------------|
| <b>TOTAL COMMON STOCKS</b><br>(Cost \$48,626,245)   |                             | <u>\$ 82,863,486</u> | <b>REPURCHASE AGREEMENT <sup>□</sup></b><br><b>15.3%</b><br>State Street Bank & Trust<br>Company, 0.30% dated<br>12/31/03, due 1/2/04,<br>maturity value \$13,314,222<br>(collateralized by U.S.<br>Treasury Notes, 4.25% due<br>11/15/13, valued at<br>\$13,582,575) (Cost<br>\$13,314,000) | <u>\$ 13,314,000</u> |
| <b>CORPORATE BONDS <sup>□</sup> 3.5%</b><br><b>E*TRADE Financial 6.00%</b><br>Conv. Sub Note due 2/1/07 | \$ 3,000,000                | 3,075,000            |  |                      |
| <b>TOTAL CORPORATE BONDS</b><br>(Cost \$2,311,498)  |                             | <u>3,075,000</u>     | <b>COLLATERAL RECEIVED FOR SECURITIES<br/>LOANED <sup>□</sup> 0.8%</b><br>Money Market Funds<br>State Street Navigator Securities<br>Lending   |                      |
| <b>GOVERNMENT BONDS <sup>□</sup></b><br><b>7.7%</b><br><b>New Zealand 6.50%, due</b><br><b>2/15/06</b>  | 10,000,000                  | 6,664,122            | Prime Portfolio<br>(Cost \$734,546)  | 734,546              |
| <b>TOTAL GOVERNMENT<br/>BONDS</b><br>(Cost \$5,947,012)   |                             | <u>6,664,122</u>     | <b>TOTAL INVESTMENTS <sup>□</sup></b><br><b>128.5%</b><br>(Cost \$75,952,027)  | <u>111,840,609</u>   |
| <b>U.S. TREASURY OBLIGATIONS</b><br><b><sup>□</sup> 6.0%</b>  | 5,000,000                   | 5,189,455            |  |                      |

|  |           |  |                      |
|--|-----------|--|----------------------|
| U.S. Treasury Notes 7.25%, due<br>8/15/04  |           | <b>CASH AND OTHER<br/>ASSETS</b>   |                      |
|  |           | <b>LESS LIABILITIES</b> ☐ 0.2%   | 171,469              |
| <b>TOTAL U.S. TREASURY<br/>OBLIGATIONS</b> |           | <b>PREFERRED STOCK</b> ☐<br><b>(28.7)%</b>                                     | (25,000,000)         |
| (Cost \$5,018,726)                         | 5,189,455 | <b>NET ASSETS APPLICABLE<br/>TO<br/>COMMON STOCKHOLDERS</b> ☐<br><b>100.0%</b> | <b>\$ 87,012,078</b> |

<sup>a</sup> Non-income producing.

<sup>b</sup> American Depository Receipt.

<sup>c</sup> A portion of these securities were on loan at December 31, 2003. Total market value of loaned securities at December 31, 2003 was \$717,530.

☐ New additions in 2003.

**Bold indicates the Fund's largest 20 holdings (excluding U.S. Treasury Obligations and Repurchase Agreement) in terms of December 31, 2003 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$76,287,560. At December 31, 2003, net unrealized appreciation for all securities was \$35,553,049, consisting of aggregate gross unrealized appreciation of \$35,916,237 and aggregate gross unrealized depreciation of \$363,188. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and amortization of discount for book and tax purposes.

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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**ROYCE FOCUS TRUST, INC.**

**STATEMENT OF ASSETS AND LIABILITIES**

**DECEMBER 31, 2003**

**ASSETS:**

|   |                    |
|---|--------------------|
| Investments at value (cost \$62,638,027) ☐ including \$734,546 of collateral on loaned securities | \$ 98,526,609      |
| Repurchase agreement (at cost and value)  | 13,314,000         |
| Cash  | 409,785            |
| Receivable for investments sold   | 270,903            |
| Receivable for dividends and interest   | 410,551            |
| Prepaid expenses  | 2,163              |
| <b>Total Assets</b>   | <b>112,934,011</b> |

**LIABILITIES:**

|  |         |
|--|---------|
| Payable for collateral on loaned securities      | 734,546 |
| Payable for investment advisory fee              | 93,489  |
| Preferred dividends accrued but not yet declared | 33,333  |
| Accrued expenses                                 | 60,565  |

|                   |         |
|-------------------|---------|
| Total Liabilities | 921,933 |
|-------------------|---------|

**PREFERRED STOCK:**

|  |            |
|--|------------|
| 6.00% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share; 1,000,000 shares outstanding | 25,000,000 |
|--|------------|

|                       |            |
|-----------------------|------------|
| Total Preferred Stock | 25,000,000 |
|-----------------------|------------|

|   |                      |
|---|----------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 87,012,078</b> |
|---|----------------------|

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|  |               |
|--|---------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 9,673,378 shares outstanding (100,000,000 shares authorized) | \$ 48,305,180 |
| Accumulated net realized gain on investments   | 2,851,649     |
| Net unrealized appreciation on investments   | 35,888,582    |
| Preferred dividends accrued but not yet declared   | (33,333)      |

|   |               |
|---|---------------|
| Net Assets applicable to Common Stockholders (net asset value per share □ \$9.00) | \$ 87,012,078 |
|---|---------------|

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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## ROYCE FOCUS TRUST, INC.

### STATEMENT OF OPERATIONS

### YEAR ENDED DECEMBER 31, 2003

**INVESTMENT INCOME:**

|                    |            |
|--------------------|------------|
| Income:            |            |
| Interest           | \$ 918,520 |
| Dividends          | 889,363    |
| Securities lending | 7,693      |

|              |           |
|--------------|-----------|
| Total income | 1,815,576 |
|--------------|-----------|

## Expenses:

|   |         |
|---|---------|
| Investment advisory fees                      | 900,253 |
| Custody and transfer agent fees               | 80,590  |
| Professional fees                             | 69,767  |
| Stockholder reports                           | 52,468  |
| Directors' fees                               | 28,812  |
| Administrative and office facilities expenses | 11,931  |
| Other expenses                                | 52,460  |

|                                   |           |
|-----------------------------------|-----------|
| Total expenses                    | 1,196,281 |
| Fees waived by investment advisor | (116,163) |

|  |                      |
|--|----------------------|
| Net expenses   | 1,080,118            |
| Net investment income  | 735,458              |
| <b>REALIZED AND UNREALIZED GAIN ON INVESTMENTS:</b>  |                      |
| Net realized gain on investments   | 8,288,351            |
| Net change in unrealized appreciation on investments   | 24,687,435           |
| Net realized and unrealized gain on investments  | 32,975,786           |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>33,711,244</b>    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>   | <b>(1,508,609)</b>   |
| <b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$ 32,202,635</b> |

### STATEMENTS OF CHANGES IN NET ASSETS

|   | Year ended<br>December 31,<br>2003 | Year ended<br>December 31,<br>2002 |
|---|------------------------------------|------------------------------------|
| <b>INVESTMENT OPERATIONS:</b>   |                                    |                                    |
| Net investment income (loss)  | \$ 735,458                         | \$ (103,396)                       |
| Net realized gain on investments  | 8,288,351                          | 1,317,847                          |
| Net change in unrealized appreciation on investments  | 24,687,435                         | (8,047,125)                        |
| Net increase (decrease) in net assets resulting from investment operations  | 33,711,244                         | (6,832,674)                        |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                                    |                                    |
| Net investment income   | (153,283)                          | (272,620)                          |
| Net realized gain on investments  | (1,355,105)                        | (1,217,380)                        |
| Quarterly distributions accrued but not yet declared  | (221)                              | □                                  |
| Total distributions to Preferred Stockholders   | (1,508,609)                        | (1,490,000)                        |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>32,202,635</b>                  | <b>(8,322,674)</b>                 |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                                    |                                    |
| Net investment income   | (582,175)                          | (150,865)                          |
| Net realized gain on investments  | (5,147,260)                        | (673,654)                          |
| Total distributions to Common Stockholders  | (5,729,435)                        | (824,519)                          |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                                    |                                    |
| Offering costs from issuance of Preferred Stock   | (984,000)                          | □                                  |
| Reinvestment of distributions to Common Stockholders  | 3,566,912                          | 449,516                            |
| Total capital stock transactions  | 2,582,912                          | 449,516                            |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>                                      | <b>29,056,112</b>                  | <b>(8,697,677)</b>                 |

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|                   |               |               |
|-------------------|---------------|---------------|
| Beginning of year | 57,955,966    | 66,653,643    |
| End of year       | \$ 87,012,078 | \$ 57,955,966 |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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**ROYCE FOCUS TRUST, INC.****FINANCIAL HIGHLIGHTS**

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

|   | Years ended December 31, |        |        |        |        |
|---|--------------------------|--------|--------|--------|--------|
|   | 2003                     | 2002   | 2001   | 2000   | 1999   |
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>   | \$6.27                   | \$7.28 | \$6.77 | \$5.94 | \$5.63 |
| <b>INVESTMENT OPERATIONS:</b>   |                          |        |        |        |        |
| Net investment income (loss)  | (0.08)                   | (0.01) | 0.05   | 0.12   | 0.08   |
| Net realized and unrealized gain (loss) on investments  | 3.57                     | (0.74) | 0.79   | 1.26   | 0.58   |
| Total investment operations   | 3.65                     | (0.75) | 0.84   | 1.38   | 0.66   |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                          |        |        |        |        |
| Net investment income   | (0.02)                   | (0.03) | (0.04) | (0.03) | (0.01) |
| Net realized gain on investments  | (0.14)                   | (0.13) | (0.13) | (0.14) | (0.17) |
| Total distributions to Preferred Stockholders   | (0.16)                   | (0.16) | (0.17) | (0.17) | (0.18) |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | 3.49                     | (0.91) | 0.67   | 1.21   | 0.48   |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                          |        |        |        |        |
| Net investment income   | (0.06)                   | (0.02) | (0.03) | (0.06) | (0.01) |
| Net realized gain on investments  | (0.56)                   | (0.07) | (0.11) | (0.28) | (0.14) |
| Total distributions to Common Stockholders  | (0.62)                   | (0.09) | (0.14) | (0.34) | (0.15) |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                          |        |        |        |        |
| Effect of Preferred Stock Offering  | (0.11)                   | □      | □      | □      | □      |

|  |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
| Effect of reinvestment of distributions by Common Stockholders               | (0.03)        | (0.01)        | (0.02)        | (0.04)        | (0.02)        |
| Total capital stock transactions   | (0.14)        | (0.01)        | (0.02)        | (0.04)        | (0.02)        |
| <b>NET ASSET VALUE, END OF PERIOD</b>  | <b>\$9.00</b> | <b>\$6.27</b> | <b>\$7.28</b> | <b>\$6.77</b> | <b>\$5.94</b> |
| <b>MARKET VALUE, END OF PERIOD</b>   | <b>\$8.48</b> | <b>\$5.56</b> | <b>\$6.65</b> | <b>\$5.69</b> | <b>\$4.72</b> |
| <b>TOTAL RETURN (a):</b>   |               |               |               |               |               |
| Market Value   | 64.0%         | (15.1)%       | 19.7%         | 27.9%         | (0.3)%        |
| Net Asset Value  | 54.3%         | (12.5)%       | 10.0%         | 20.9%         | 8.7%          |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b> |               |               |               |               |               |
| Total expenses (b,c)   | 1.57%         | 1.88%         | 1.47%         | 1.44%         | 1.51%         |
| Management fee expense   | 1.14%         | 1.13%         | 1.11%         | 1.00%         | 1.00%         |
| Other operating expenses   | 0.43%         | 0.75%         | 0.36%         | 0.44%         | 0.51%         |
| Net investment income (loss)   | 1.07%         | (0.16)%       | 0.70%         | 1.93%         | 1.47%         |
| <b>SUPPLEMENTAL DATA:</b>  |               |               |               |               |               |
| Net Assets Applicable to Common Stockholders, End of Period (in thousands)   | \$87,012      | \$57,956      | \$66,654      | \$60,933      | \$51,003      |
| Liquidation Value of Preferred Stock, End of Period (in thousands)           | \$25,000      | \$20,000      | \$20,000      | \$20,000      | \$20,000      |
| Portfolio Turnover Rate  | 49%           | 61%           | 54%           | 69%           | 60%           |
| <b>PREFERRED STOCK:</b>  |               |               |               |               |               |
| Total shares outstanding   | 1,000,000     | 800,000       | 800,000       | 800,000       | 800,000       |
| Asset coverage per share   | \$112.01      | \$97.44       | \$108.32      | \$101.17      | \$88.75       |
| Liquidation preference per share   | \$25.00       | \$25.00       | \$25.00       | \$25.00       | \$25.00       |
| Average market value per share (d):  |               |               |               |               |               |
| 6.00% Cumulative   | \$25.45       | □             | □             | □             | □             |
| 7.45% Cumulative   | \$25.53       | \$25.64       | \$25.09       | \$22.23       | \$24.00       |

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.20%, 1.43%, 1.11%, 1.05% and 1.06% for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.73%, 2.06%, 1.69%, 1.81% and 1.93%, for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.
- (d) The average of month-end market values during the period that the preferred stock was outstanding.

## ROYCE FOCUS TRUST, INC.

## NOTES TO FINANCIAL STATEMENTS

**Summary of Significant Accounting Policies:**

Royce Focus Trust, Inc. (the Fund) is a diversified closed-end investment company. The Fund commenced operations on March 2, 1988 and Royce & Associates, LLC (Royce) assumed investment management responsibility for the Fund on November 1, 1996.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Valuation of Investments:**

Securities are valued as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange or Nasdaq are valued at their last reported sales price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their bid price. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. Bonds and other fixed income securities may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services.

**Investment Transactions and Related Investment Income:**

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and any non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

**Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated in an equitable manner. Allocated personnel and occupancy costs related to The Royce Funds are included in administrative and office facilities expenses. The Fund has adopted a deferred fee agreement that allows the Fund's Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Taxes:**

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information".

**Distributions:**

Distributions to Common Stockholders are recorded on the ex-dividend date and paid annually in December. The Fund is required to allocate long-term capital gain distributions and other types of income proportionately to distributions made to holders of shares of Common Stock and Preferred Stock. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions to Preferred Stockholders are recorded on an accrual basis and paid quarterly. Distributions are determined in accordance with income tax regulations that may differ from accounting

principles generally accepted in the United States of America. Permanent book and tax basis differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

**Repurchase Agreements:**

The Fund enters into repurchase agreements with respect to its portfolio securities solely with State Street Bank and Trust Company (["SSB&T"]), the custodian of its assets. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held by SSB&T until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of SSB&T, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

**Securities Lending:**

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral on all securities loaned for the Fund is accepted in cash and is invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities.

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**ROYCE FOCUS TRUST, INC.**

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**Capital Stock:**

The Fund issued 432,353 and 79,701 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2003 and 2002, respectively.

On October 20, 2003, the Fund redeemed all (800,000 shares) of its then outstanding 7.45% Cumulative Preferred Stock at the redemption price of \$25.00 per share plus accumulated and unpaid dividends through the redemption date of \$0.14486 per share. On October 17, 2003, the Fund received net proceeds of \$24,212,500 (after underwriting discounts of \$787,500 and before estimated offering expenses of \$196,500) from the public offering of 1,000,000 shares of 6.00% Cumulative Preferred Stock. Commencing October 17, 2008 and thereafter, the Fund, at its option, may redeem the 6.00% Cumulative Preferred Stock, in whole or in part, at the redemption price.

At December 31, 2003, 1,000,000 shares of the 6.00% Cumulative Preferred Stock were outstanding. The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these

requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Preferred Stock.

Under Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer. Subject to the guidance of the EITF, the Fund's Cumulative Preferred Stock has been reclassified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements.

#### Investment Advisory Agreement:

The Investment Advisory Agreement between Royce and the Fund provides for fees to be paid at an annual rate of 1.0% of the Fund's average daily net assets applicable to Common Stockholders plus the liquidation value of Preferred Stock. Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the Preferred Stock's dividend rate.

For the year ended December 31, 2003 the Fund accrued and paid Royce advisory fees totaling \$784,090, which is net of \$116,163 voluntarily waived by Royce.

#### Distributions to Stockholders:

The tax character of distributions paid to stockholders during 2003 and 2002 was as follows:

| Distributions paid from: | 2003                | 2002                |
|--------------------------|---------------------|---------------------|
| Ordinary income          | \$ 1,622,760        | \$ 423,485          |
| Long-term capital gain   | 5,615,063           | 1,891,034           |
|                          | <u>\$ 7,237,823</u> | <u>\$ 2,314,519</u> |

As of December 31, 2003, the tax basis components of distributable earnings included in stockholders' equity were as follows:

|                                 |                      |
|---------------------------------|----------------------|
| Undistributed long-term gain    | \$ 3,188,883         |
| Unrealized appreciation         | 35,553,049           |
| Accrued preferred distributions | (33,333)             |
|                                 | <u>\$ 38,708,599</u> |

**Purchases and Sales of Investment Securities:**

For the year ended December 31, 2003, the cost of purchases and proceeds from sales of investment securities, other than short-term securities, amounted to \$38,017,687 and \$41,202,432, respectively.

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**ROYCE FOCUS TRUST, INC.**

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**REPORT OF INDEPENDENT AUDITORS**

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**To the Board  
of Directors  
and  
Stockholders  
of Royce Focus  
Trust, Inc.**

We have audited the accompanying statement of assets and liabilities of Royce Focus Trust, Inc., including the schedule of investments, as of December 31, 2003, and the related statement of operations for the year ended, and the statement of changes in net assets for the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's

management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2003, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant

estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us present fairly, in all material respects, the financial position of Royce Focus Trust, Inc. at December 31, 2003, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER &  
BAKER

Philadelphia, PA  
January 24,

2004

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FUNDS ANNUAL  
REPORT 2003**STOCKHOLDER MEETING RESULTS**

At the 2003 Annual Meeting of Stockholders held on September 29, 2003, the Fund's stockholders elected those members of the Board of Directors whose terms would otherwise have expired at the completion of the 2003 Annual Meeting, consisting of (a) Charles M. Royce, (b) G. Peter O'Brien, (c) William L. Koke and (d) David L. Meister.

**ROYCE VALUE TRUST, INC.**

|     | COMMON STOCK AND PREFERRED STOCK VOTING TOGETHER AS A SINGLE CLASS |               |                 | PREFERRED STOCK VOTING AS A SEPARATE CLASS |               |                 |
|-----|--|---------------|-----------------|--|---------------|-----------------|
|     | VOTES FOR  | VOTES AGAINST | VOTES ABSTAINED | VOTES FOR                                  | VOTES AGAINST | VOTES ABSTAINED |
| (a) | 49,457,490   | n.a.          | 555,123         | n.a.                                       | n.a.          | n.a.            |
| (b) | 49,642,935   | n.a.          | 367,214         | n.a.                                       | n.a.          | n.a.            |
| (c) | n.a.   | n.a.          | n.a.            | 5,413,761                                  | n.a.          | 34,521          |
| (d) | n.a.   | n.a.          | n.a.            | 5,408,761                                  | n.a.          | 39,521          |

At the 2003 Annual Meeting of Stockholders held on September 29, 2003, the Fund's stockholders elected those members of the Board of Directors whose terms would otherwise have expired at the completion of the 2003 Annual Meeting, consisting of (a) Charles M. Royce, (b) G. Peter O'Brien, (c) William L. Koke and (d) David L. Meister.

**ROYCE MICRO-CAP TRUST, INC.**

|     | COMMON STOCK AND PREFERRED STOCK VOTING TOGETHER AS A SINGLE CLASS |               |                 | PREFERRED STOCK VOTING AS A SEPARATE CLASS |               |                 |
|-----|--|---------------|-----------------|--|---------------|-----------------|
|     | VOTES FOR  | VOTES AGAINST | VOTES ABSTAINED | VOTES FOR                                  | VOTES AGAINST | VOTES ABSTAINED |
| (a) | 18,986,536   | n.a.          | 196,284         | n.a.                                       | n.a.          | n.a.            |
| (b) | 19,053,253   | n.a.          | 129,567         | n.a.                                       | n.a.          | n.a.            |
| (c) | n.a.   | n.a.          | n.a.            | 1,559,237                                  | n.a.          | 17,108          |
| (d) | n.a.   | n.a.          | n.a.            | 1,558,087                                  | n.a.          | 18,258          |

At the 2003 Annual Meeting of Stockholders held on September 29, 2003, the Fund's stockholders elected those members of the Board of Directors whose terms would otherwise have expired at the

completion of the 2003 Annual Meeting, consisting of (a) Charles M. Royce, (b) G. Peter O'Brien, (c) Stephen L. Isaacs and (d) David L. Meister.

| <b>ROYCE FOCUS TRUST, INC.</b>  |                      |                          |   |                      |                          |                            |
|---|----------------------|--------------------------|---|----------------------|--------------------------|----------------------------|
| <b>COMMON STOCK AND<br/>PREFERRED STOCK VOTING<br/>TOGETHER AS A SINGLE CLASS</b> |                      |                          | <b>PREFERRED STOCK VOTING<br/>AS A SEPARATE CLASS</b> |                      |                          |                            |
|   | <b>VOTES<br/>FOR</b> | <b>VOTES<br/>AGAINST</b> | <b>VOTES<br/>ABSTAINED</b>                            | <b>VOTES<br/>FOR</b> | <b>VOTES<br/>AGAINST</b> | <b>VOTES<br/>ABSTAINED</b> |
| <b>(a)</b>  | 9,072,376            | n.a.                     | 107,071   | n.a.                 | n.a.                     | n.a.                       |
| <b>(b)</b>  | 9,109,702            | n.a.                     | 69,745  | n.a.                 | n.a.                     | n.a.                       |
| <b>(c)</b>  | n.a.                 | n.a.                     | n.a.  | 762,405              | n.a.                     | 14,380                     |
| <b>(d)</b>  | n.a.                 | n.a.                     | n.a.  | 761,405              | n.a.                     | 15,380                     |

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## POSTSCRIPT

### HANDI-CAPPING

As another winter visits with us here in the Northeast, we quickly grow accustomed to weather forecasts that arrive in a blizzard of hype as news organizations dispatch a small army of reporters across three states to prepare us for the coming storm. Of course, more often than not the storm fails to materialize, at least in the form of the life-changing cataclysm we were warned about. But we don't want to blame the hard-working weather people. Even with the development of Doppler radar, storm tracking software and the growing knowledge about the planet's weather systems, it's still extraordinarily difficult to be right more often than not, especially when it comes to winter weather. It seems that a dismal track record simply goes with the business of forecasting, not just in predicting temperatures and snow falls, but in almost every area of life in which one's livelihood hinges on trying to predict events that haven't happened yet.

Yet the services of professional prognosticators are increasingly in demand, regardless of their general level of performance. For almost any event in American life that can be construed as a contest, there will be someone offering odds as to the outcome. The analysis of professional and college sports has long since been overtaken by swamis who offer not just the odds or point spreads as to the final score, but who also offer allegedly informed estimates as to how many points will be scored, how many yards a quarterback will throw for, how many strikeouts a pitcher will earn and how many spectators will show up at the stadium that day. Most of this activity is fueled by the lure of profit — there's a lot of money to be made — but it doesn't come as much from being correct in one's predictions as it does in being the party that takes all the bets and assumes the risk of someone being right more often than not. Needless to say, those who take the bets almost always end up with more money than those who make them.

The stock market is not immune to this trend, either. Plenty of bookstore shelf space is taken up with tomes written by experts who'll happily help you get rich for the small price of their book, although there's often a second book, or a set of cassettes and/or videos that you'll also need. You might be concerned that all of these experts are not only saying something different, they're often recommending the opposite strategy to what the other guy says. One insists that growth investing is the way to go while another preaches patience with your equities, which might make sense until a third advises you to avoid the stock market altogether and buy nothing but bonds, real estate or pork

bellies. They come to you armed with an array of statistics, charts, graphs and more statistics to make the iron-clad case that if you'd only heeded their wisdom back in 1989 or 1975 or 1953, you'd be a billionaire today. Try not to let the fact that few, if any, of the authors themselves are billionaires bother you.

It's always tempting to make predictions, whether it's about what direction the stock market might take in 2004 or what film will win Best Picture at this year's Academy Awards. The trick to doing it right, we would humbly suggest, is twofold: One must substantiate forecasts with as many facts as one can bring to the argument, and one must temper one's fortune-telling with the knowledge that things can change awfully quickly (especially in the market), making today's brilliant insight look like tomorrow's silly statement. We speak on this last matter from many years of experience.

This is why we always take predictions, even our own, with a large grain of salt. In fact, we think that one of the most attractive attributes of value investing is its all-weather quality. This allows us to manage our portfolios without worrying too much about where the stock market or the economy may be heading. We think about these issues, we share our ideas with our stockholders and we may even take them into consideration when buying and selling securities. However, we are not wed to them and certainly would not ask others to accept them uncritically. We have no desire to write the next big business bestseller and think that the prediction business would do just fine without us. We remain firmly rooted in our approach, which focuses on understanding balance sheets and business strategies as opposed to things that are not predictable, and we will continue to maintain a healthy dose of skepticism about anyone's ability to see the future. You can bet on that.

## The Royce Funds

1414 AVENUE OF THE AMERICAS □ NEW YORK, NY 10019

*(l-r) Whitney George, Buzz Zaino, Chuck Royce,  
Jack Fockler, Charlie Dreifus*

### **WEALTH OF EXPERIENCE**

With approximately \$15.7 billion in total assets under management, Royce & Associates is committed to the same small-company investing principles that have served us well for more than 25 years. Charles M. Royce, our Chief Investment Officer, enjoys one of the longest tenures of any active mutual fund manager. He is supported by a senior staff that includes six Portfolio Managers and a Managing Director, as well as eight analysts and five traders.

### **MULTIPLE FUNDS, COMMON FOCUS**

Our goal is to offer both individual and institutional investors the best available small-cap value portfolios. Unlike a lot of mutual fund groups with broad product offerings, we have chosen to concentrate on small-company value investing by providing investors with a range of funds that take full advantage of this large and diverse sector.

### CONSISTENT DISCIPLINE

Our approach emphasizes paying close attention to risk and maintaining the same discipline, regardless of market movements and trends. The price we pay for a security must be significantly below our appraisal of its current worth. This requires a thorough analysis of the financial and business dynamics of an enterprise, as though we were purchasing the entire company.

### CO-OWNERSHIP OF FUNDS

It is important that our employees and stockholders share a common financial goal; our officers, employees and their affiliates currently have approximately **\$63 million** invested in open- and closed-end Royce Funds.

#### GENERAL INFORMATION

*Additional Report Copies*  
(800) 221-4268

#### BROKER/DEALER SERVICES

*For Fund Materials and Performance Updates*  
(800) 59-ROYCE (597-6923)

#### EQUISERVE

*Transfer Agent and Registrar*  
(800) 426-5523

#### ADVISOR SERVICES

*For Fund Materials, Performance Updates, Transactions or Account Inquiries*  
(800) 33-ROYCE (337-6923)

[www.roycefunds.com](http://www.roycefunds.com)

CE-ANN-1203

**Item 2: Code(s) of Ethics** As of the end of the period covered by this report, the Registrant had adopted a code of ethics, as defined in Item 2 of Form N-CSR, applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of this code of ethics is filed as an exhibit to this Form N-CSR. No substantive amendments were approved or waivers were granted to this code of ethics during the period covered by this report.

#### Item 3: Audit Committee Financial Expert

- (a)(1) The Board of Directors of the Registrant has determined that it does not have an audit committee financial expert.
- (a)(2) The Board of Directors of the Registrant has determined that, although each member of its Audit Committee is financially literate and has the necessary education and experience to be effective members of the Audit Committee, no one member of its Audit Committee possesses each of the five attributes of an audit committee financial expert. The Board of Directors has therefore further determined that it would be appropriate and desirable to add a person to the Audit Committee that possesses each of the five attributes of an audit committee financial expert. Accordingly, the non-interested members of the Board of Directors, acting as a Nominating Committee, have begun a search for a new non-interested Board member who will serve as the audit committee financial expert.

#### Item 4: Principal Accountant Fees and Services.

- (a) Audit Fees:  
Year ended December 31, 2003 - \$20,200  
Year ended December 31, 2002 - \$19,100
- (b) Audit-Related Fees:  
Year ended December 31, 2003 - \$6,000 Preparation of reports to rating agency for Preferred Stock  
Year ended December 31, 2002 - \$6,000 Preparation of reports to rating agency for Preferred Stock

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- (c) Tax Fees:  
Year ended December 31, 2003 - \$2,500 Preparation of tax returns  
Year ended December 31, 2002 - \$2,500 Preparation of tax returns
- (d) All Other Fees:  
Year ended December 31, 2003 - \$7,500 Services in connection with Registration Statement on Form N-2 for newly issued Preferred Stock  
Year ended December 31, 2002 - -0-
- (e)(1) Annual Pre-Approval: On an annual basis, the Registrant's independent auditor submits to the Audit Committee a schedule of proposed audit, audit-related, tax and other non-audit services to be rendered to the Registrant and/or investment adviser(s) for the following year that require pre-approval by the Audit Committee. This schedule provides a description of each type of service that is expected to require pre-approval and the maximum fees that can be paid for each such service without further Audit Committee approval. The Audit Committee then reviews and determines whether to approve the types of scheduled services and the projected fees for them. Any subsequent revision to already pre-approved services or fees (including fee increases) are presented for consideration at the next regularly scheduled Audit Committee meeting, as needed.

If subsequent to the annual pre-approval of services and fees by the Audit Committee, the Registrant or one of its affiliates determines that it would like to engage the Registrant's independent auditor to perform a service not already pre-approved, the request is to be submitted to the Registrant's Chief Financial Officer, and if he or she determines that the service fits within the independence guidelines (e.g., it is not a prohibited service), he or she will then arrange for a discussion of the proposed service and fee to be included on the agenda for the next regularly scheduled Audit Committee meeting so that pre-approval can be considered.

Interim Pre-Approval: If, in the judgment of the Registrant's Chief Financial Officer, a proposed engagement needs to commence before the next regularly scheduled Audit Committee meeting, he or she shall submit a written summary of the proposed engagement to all members of the Audit Committee, outlining the

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services, the estimated maximum cost, the category of the services (e.g., audit, audit-related, tax or other) and the rationale for engaging the Registrant's independent auditor to perform the services. To the extent the proposed engagement involves audit, audit-related or tax services, any individual member of the Audit Committee who is an independent Board member is authorized to pre-approve the engagement. To the extent the proposed engagement involves non-audit services other than audit-related or tax, the Chairman of the Audit Committee is authorized to pre-approve the engagement. The Registrant's Chief Financial Officer will arrange for this interim review and coordinate with the appropriate member(s) of the Committee. The independent auditor may not commence the engagement under consideration until the Registrant's Chief Financial Officer has informed the auditor in writing that pre-approval has been obtained from the Audit Committee or an individual member who is an independent Board member. The member of the Audit Committee who pre-approves any engagements in between regularly scheduled Audit Committee meetings is to report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next regularly scheduled meeting.

- (e)(2) Not Applicable
- (f) Not Applicable
- (g) Year ended December 31, 2003 - \$16,000  
Year ended December 31, 2002 - \$16,000
- (h) No such services were rendered during 2003. In 2002, the Registrant's Audit Committee considered whether the provision of non-audit services to the investment adviser and one of its employees for an analysis of the performance of his accounts were compatible with monitoring the principal accountant's independence. For such services, which did not relate to the operations or financial reporting of the Registrant, the investment adviser and one of its employees paid a total of \$7,500 to the Registrant's accountants.

**Item 5: Not Applicable.**

**Item 6: Reserved.**

**Item 7:**

June 5, 2003

**Royce & Associates Proxy Voting Guidelines and Procedures**

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These procedures apply to Royce & Associates, LLC ( Royce ) and all funds and other client accounts for which it is responsible for voting proxies, including all open and closed-end registered investment companies ( The Royce Funds ), limited partnerships, limited liability companies, separate accounts, other accounts for which it acts as investment adviser and any accounts for which it acts as sub-adviser that have directly or indirectly delegated proxy voting authority to Royce. The Boards of Trustees/Directors of The Royce Funds have delegated all proxy voting decisions to Royce .

Receipt of Proxy Material. Under the continuous oversight of the Head of Administration, an Administrative Assistant designated by him is responsible for monitoring receipt of all proxies and ensuring that proxies are received for all securities for which Royce has proxy voting responsibility. All proxy materials are logged in upon receipt by Royce s Librarian.

Voting of Proxies. Once proxy material has been logged in by Royce s Librarian, it is then promptly reviewed by the designated Administrative Assistant to evaluate the issues presented. Regularly recurring matters are usually voted as recommended by the issuer s board of directors or management. The Head of Administration, in consultation with the Chief Investment Officer, develops and updates a list of matters Royce treats as regularly recurring and is responsible for ensuring that the designated Administrative Assistant has an up-to-date list of these matters at all times, including instructions from Royce s Chief Investment Officer on how to vote on those matters on behalf of Royce clients . Examples of regularly recurring matters include non-contested elections of directors

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and non-contested approval of independent auditors. Non- regularly recurring matters are brought to the attention of the portfolio manager(s) for the account(s) involved by the designated Administrative Assistant, and, after giving some consideration to advisories from Proxy Master (a service provided by Institutional Shareholder Services), the portfolio manager directs that such matters be voted in a way that he or she believes should better protect or enhance the value of the investment. If the portfolio manager determines that information concerning any proxy requires analysis, is missing or incomplete, he or she then gives the proxy to an analyst or another portfolio manager for review and analysis.

- a. From time to time, it is possible that one Royce portfolio manager will decide (i) to vote shares held in client accounts he or she manages differently from the vote of another Royce portfolio manager whose client accounts hold the same security or (ii) to abstain from voting on behalf of client accounts he or she manages when another Royce portfolio manager is casting votes on behalf of other Royce client accounts.

The designated Administrative Assistant reviews all proxy votes collected from Royce s portfolio managers prior to such votes being cast. If any difference exists among the voting instructions given by Royce s portfolio managers, as described above, the designated Administrative Assistant then presents these proposed votes to the Head of Administration and the Chief Investment Officer. The Chief Investment Officer, after consulting with the relevant portfolio managers, either reconciles the votes or authorizes the casting of differing votes by different Royce portfolio managers. The Head of Administration maintains a log of all votes for which different portfolio managers have cast differing votes, that describes the rationale for allowing such differing votes and contains the initials of both the Chief Investment Officer and Head of Administration allowing such differing votes. The Head of Administration performs a weekly review of all votes cast by Royce to confirm that any conflicting votes were properly handled in accordance with the above-described procedures.

- b. There are many circumstances that might cause Royce to vote against an issuer s board of directors or management proposal. These would include, among others, excessive compensation, unusual management stock options, preferential voting, poison pills, etc. Royce s portfolio managers decide these issues on a case-by-case basis as described above.
- c. A Royce portfolio manager may, on occasion, determine to abstain from voting a proxy or a specific proxy item when he or she concludes that the potential benefit of voting is outweighed by the cost, when it is not in the client account s best interest to vote.
- d. When a client has authorized Royce to vote proxies on its behalf, Royce will generally not accept instructions from the clients regarding how to vote proxies.

Custodian banks are authorized to release all shares held for Royce client account portfolios to Automated Data Processing Corporation ( ADP ) for voting, utilizing ADP s Proxy Edge software system. Substantially all portfolio companies utilize ADP to collect their proxy votes. However, for the limited number of portfolio companies that do not utilize ADP, Royce attempts to register at least a portion of its clients holdings as a physical shareholder in order to ensure its receipt of a physical proxy.

Under the continuous oversight of the Head of Administration, the designated Administrative Assistant is responsible for voting all proxies in a timely manner. Votes are returned to ADP using Proxy Edge as ballots are received, generally two weeks before the scheduled meeting date. The issuer can thus see that the shares were voted, but the actual vote cast is not released to the company until 4pm on the day before the meeting. If proxies must be mailed, they go out at least ten business days before the meeting date.

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Conflicts of Interest. The designated Administrative Assistant reviews reports generated by Royce's portfolio management system ( Quest PMS ) that set forth by record date, any security held in a Royce client account which is issued by a (i) public company that is, or a known affiliate of which is, a separate account client of Royce (including sub-advisory relationships), (ii) public company, or a known affiliate of a public company, that has invested in a privately-offered pooled vehicle managed by Royce or (iii) public company, or a known affiliate of a public company, by which the spouse of a Royce employee or an immediate family member of a Royce employee living in the household of such employee is employed, for the purpose of identifying any potential proxy votes that could present a conflict of interest for Royce. The Head of Administration develops and updates the list of such

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public companies or their known affiliates which is used by Quest PMS to generate these daily reports. This list also contains information regarding the source of any potential conflict relating to such companies. Potential conflicts identified on the conflicts reports are brought to the attention of the Head of Administration by the designated Administrative Assistant, who then reviews them to determine if business or personal relationships exist between Royce, its officers, managers or employees and the company that could present a material conflict of interest. Any such identified material conflicts are voted by Royce in accordance with the recommendation given by an independent third party research firm (Institutional Shareholder Services). The Head of Administration maintains a log of all such conflicts identified, the analysis of the conflict and the vote ultimately cast. Each entry in this log is signed by the Chief Investment Officer before the relevant votes are cast.

Recordkeeping. A record of the issues and how they are voted is stored in the Proxy Edge system. Copies of all physically executed proxy cards, all proxy statements and any other documents created or reviewed that are material to making a decision on how to vote proxies are retained in the Company File maintained by Royce's Librarian.

**Item 8: Reserved.**

**Item 9: Controls and Procedures.**

(a) Disclosure Controls and Procedures. The Principal Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on their evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) Internal Controls. There were no significant changes in Registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 10: Exhibits attached hereto.

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ROYCE FOCUS TRUST, INC.**

BY: /s/ Charles M. Royce

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**Charles M. Royce**  
**President**

Date: March 1, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**ROYCE FOCUS TRUST, INC.**

BY: /s/ Charles M. Royce

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**Charles M. Royce**  
**President**

Date: March 1, 2004

**ROYCE FOCUS TRUST, INC.**

BY: /s/ John D. Diederich

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**John D. Diederich**  
**Chief Financial Officer**

Date: March 1, 2004